

# **COMPREHENSIVE ANNUAL FINANCIAL REPORT**



**FISCAL YEAR ENDED  
JUNE 30, 2005**

# **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FISCAL YEAR ENDED JUNE 30, 2005**



**The  
Mission City**

**CITY OF SANTA CLARA, CALIFORNIA  
1500 WARBURTON AVENUE  
SANTA CLARA, CA 95050-3796**

**PREPARED BY DEPARTMENT OF FINANCE**

**CITY OF SANTA CLARA**  
**Comprehensive Annual Financial Report**  
**Fiscal Year Ended June 30, 2005**

**TABLE OF CONTENTS**

**Page No.**

**INTRODUCTORY SECTION**

Table of Contents .....	i
Letter of Transmittal.....	v
Roster of Council and Commission Members.....	xvi
Directory of City Officials .....	xvii
GFOA Certificate of Achievement .....	xviii
CSMFO Certificate of Award for Outstanding Financial Reporting.....	xix
Organization Chart .....	xx
Location Map .....	xxi

**FINANCIAL SECTION**

<i>Independent Auditor's Report on Basic Financial Statements</i> .....	1
<i>Management's Discussion and Analysis</i> .....	3

***Basic Financial Statements:***

Government-wide Financial Statements:

Statement of Net Assets .....	29
Statement of Activities.....	30

Fund Financial Statements:

Major Governmental Funds:

Balance Sheet.....	34
Reconciliation of Fund Balances to Governmental Activities Net Assets .....	35
Statement of Revenues, Expenditures , and Changes in Fund Balance.....	36
Reconciliation of the Net Change in Fund Balances Total Governmental Funds with the Statement of Activities .....	37

**CITY OF SANTA CLARA**  
**Comprehensive Annual Financial Report**  
**Fiscal Year Ended June 30, 2005**

**TABLE OF CONTENTS**

**Page No.**

**Major Proprietary Funds:**

Statement of Net Assets.....	40
Statement of Revenues, Expenses and Changes in Fund Net Assets .....	42
Statement of Cash Flows .....	44

**Fiduciary Funds:**

Statement of Fiduciary Net Assets .....	48
---	----

Notes to Basic Financial Statements.....	50
--	----

**Required Supplementary Information:**

Notes to Required Supplementary Information.....	109
--	-----

**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual:**

General Fund .....	110
--------------------	-----

**Supplementary Information:**

*Non-major Governmental Funds:*

Combining Balance Sheet .....	116
Combining Statements of Revenues, Expenditures and Changes in Fund Balances.....	120
Special Revenue Maintenance Fund Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non GAAP Legal Basis).....	124

*Internal Service Funds*

Combining Statements of Net Assets .....	126
Combining Statements of Revenues, Expenses and Changes in Fund Net Assets.....	127
Combining Statements of Cash Flows.....	128

*Agency Funds:*

Combining Balance Sheet .....	130
Statement of Changes in Assets and Liabilities – All Agency Funds .....	131

**CITY OF SANTA CLARA**  
**Comprehensive Annual Financial Report**  
**Fiscal Year Ended June 30, 2005**

**TABLE OF CONTENTS**

**Page No.**

**STATISTICAL SECTION**

1.	General Governmental Revenues by Source - Last Ten Fiscal Years.....	133
2.	General Governmental Expenditures by Function - Last Ten Fiscal Years .....	134
3.	Tax Revenues by Source – Last Ten Fiscal Years.....	135
4.	Property Tax Levies and Collections – Last Ten Fiscal Years.....	136
5.	Special Assessment Billings and Collections .....	136
6.	Assessed and Estimated Actual Value of Taxable Property - Last Ten Fiscal Years ....	137
7.	Ten Largest Property Owners .....	137
8.	Property Tax Rates Direct and Overlapping Governments – Last Ten Fiscal Years.....	138
9.	Computation of Legal Bonded Debt Margin .....	139
10.	Computation of Direct and Overlapping Bonded Debt.....	140
11.	Electric Revenue Bond Coverage.....	141
12.	Demographic Statistics - Last Ten Calendar Years .....	142
13.	Property Values, Construction and Bank Deposits - Last Ten Fiscal Years .....	143
14.	Taxable Retail Sales Comparison - Last Ten Calendar Years.....	144
15.	Ten Largest Sales Taxpayers by Economic Category – Years Ended December 31, 2004 and 2003.....	144
16.	Taxable Sales – Most Recently Available Ten Calendar Years.....	145
17.	Twenty-five Largest Employers – June 30, 2005 .....	146
18.	Statement of Insurance Coverage – June 30, 2005.....	147
19.	Miscellaneous Statistics – June 30, 2005 .....	148



Mary Ann Parrot  
Director of Finance

December 7, 2005

Citizens of the City of Santa Clara  
The Honorable Mayor and City Council  
City of Santa Clara  
Santa Clara, CA 95050

Dear Citizens, Mayor and Members of the City Council:

The Comprehensive Annual Financial Report (CAFR) of the City of Santa Clara (City) for the fiscal year ended June 30, 2005, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to fairly present the financial position and results of operations of the various funds of the City. All significant disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

#### **FINANCIAL REPORTING FORMAT AND STANDARDS**

The CAFR is presented in three sections:

- 1) **INTRODUCTORY SECTION** – includes this letter of transmittal, roster of Council and Commission members, directory of City Officials, the City's organizational chart, certificate of achievement from the Government Finance Officers Association (GFOA), certificate of award from the California Society of Municipal Finance Officers (CSMFO) and a location map.
- 2) **FINANCIAL SECTION** – includes the Government-wide and the Fund financial statements, along with the Notes to these financial statements. Also included in the Financial section are the following:
  - a) **MANAGEMENT'S DISCUSSION AND ANALYSIS** – the City's financial results summarized in the Management's Discussion and Analysis, which precedes the Basic Financial Statements.
  - b) **REQUIRED SUPPLEMENTARY INFORMATION** – includes the Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual (non-GAAP Legal Basis) for the General Fund.
  - c) **SUPPLEMENTARY INFORMATION** – includes the combining statements for Non-major Governmental Funds, Internal Service Funds and Fiduciary Funds.
- 3) **STATISTICAL SECTION** - includes selected financial and demographic information, generally presented on a multiyear basis.

Finance Department  
1500 Warburton Avenue  
Santa Clara, CA 95050  
(408) 615-2345  
FAX (408) 243-8687  
[www.ci.santa-clara.ca.us](http://www.ci.santa-clara.ca.us)

The Basic Financial Statements included in the CAFR have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB) and includes the report of the City's independently certified public accountants, Maze & Associates.

In addition, the City is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act, U.S. Office of Management and Budget Circular A-133, Audits of State and Local Governmental Units and Non-Profit Organizations, and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States. Information related to the June 30, 2005, single audit, including the schedule of expenditures of federal awards, and the auditors' reports on compliance and on internal control over financial reporting and compliance with applicable laws and regulations, are included in the single audit report which is separately issued and available at Santa Clara City Hall in the City Clerk's Office.

## **THE REPORTING ENTITY AND ITS SERVICES**

The City of Santa Clara, also known as the Mission City, is a charter city incorporated in 1852 under the laws of the State of California. It uses the Council/Manager form of government. The City Council is made up of six Council members and a directly elected Mayor who serves "at large". The City Council appoints a City Manager who is responsible for the overall administration of the City. The City is located in the County of Santa Clara, California, and is approximately 45 miles southeast of San Francisco and three miles west of downtown San Jose. It is situated in the northern part of the County and occupies approximately 19.2 square miles. As of January 1, 2005, the City population was estimated by the California State Department of Finance at 109,106 approximately 6.2% of the total Santa County population.

The City provides a full range of services. These services include police, fire protection and emergency dispatch; electric, water and sanitation services; the construction and maintenance of streets and infrastructure; parks and recreational activities and cultural events; planning and zoning; library; cemetery; and general administrative and support services.

This CAFR includes all funds and account groups of the City, as well as all activities of entities considered to be a part of, controlled by, and dependent on the City. These entities include the Redevelopment Agency of the City of Santa Clara (Agency), the Public Facilities Financing Corporation (PFFC), and the City of Santa Clara Sports and Open Space Authority (SOSA). Separate financial statements have been issued for both the Agency and the Electric Utility Enterprise Fund. These separate financial reports are available at the Santa Clara City Hall in the City Clerk's Office.

## **ECONOMIC ENVIRONMENT**

Santa Clara is headquarters to some of the nation's leading electronics, telecommunications, computer, and semiconductor firms. The City enjoys a diversified industrial and commercial base. Ninety-five percent of the land zoned for industrial uses is developed with approximately 850 manufacturing plants producing electronic components, communications equipment and computer systems as well as general items such as fiberglass, paper and chemicals.

The City has 14 elementary schools, 2 junior high schools, 2 high schools, 4 parochial schools, private schools, as well as a university, a community college, an adult learning center, and a general hospital with a 337 total bed capacity and 237 affiliated physicians/surgeons.

The national economy continues to trend slowly upwards. In the quarter ending June 30, 2005, gross domestic product grew at a 3.3% annual rate according to preliminary estimates. A recent report by UCLA Anderson Forecast predicted that the current pace of the national economic recovery will continue, with 3% annual growth through 2005. The forecast also said that a recession is possible in the next couple of years if one or more sectors such as manufacturing or retail slump. The reason for the cautious growth predictions include: price of oil, geopolitical situation, rising healthcare costs, and the fear that consumers may reduce spending, as the rising cost of necessities crowds out discretionary spending.

The State budget crisis further complicates the City's financial picture given the uncertainty of how the State's long-term budget challenges will be resolved. The State still faces an ongoing structural deficit of approximately \$4.5 billion for fiscal year 2005-06. In fiscal years 2004-05 and 2005-06, the State budget resulted in additional takeaways from the City including \$10.2 million General Fund property tax shift to State as part of the ERAF (Education Revenue Augmentation Fund). In the November 2004 general election, California voters approved Proposition 1A which prohibits the State from arbitrarily taking away local revenues except under severe financial emergencies. The passage of this constitutional amendment restores some predictability and certainty to the funding needed for police, fire and other essential local services.

The Bay Area economy, and in particular the Silicon Valley region, appears to be turning the corner and working its way out of the most severe economic downturns to affect the area. While there are positive signs indicating that the bottom has been reached and passed, the recovery of the regional economy is expected to be slower and flatter than in previous recovery periods. The consensus economic opinion continues to be one in which the regional economy will lag the national economic recovery, with the Silicon Valley's recovery being particularly slow.

During fiscal year 2004-05, the City did benefit from the improving local economic conditions. The fiscal 2004-05 revenues to the General Fund were \$4.3 million higher compared to prior year and \$4.2 million or 4% above the budgeted levels. The General Fund's major revenue sources – sales, property, and other local taxes were higher than previous the fiscal year indicating that the worst economic conditions might be over for the City. To respond to the economic slowdown in recent years, the City has instituted tight budgetary controls including elimination of some full-time positions and a managed hiring freeze on other vacancies. Careful expenditure planning and revenue monitoring will continue to be key to ensure that the City successfully manages its financial situation without affecting its service levels to the Santa Clara community.

## **CITY MISSION, VISION, AND GOALS**

### **Mission Statement**

The mission of the City of Santa Clara is to promote a living and working environment that allows for the best quality of life by serving the community with resourceful, efficient, progressive and professional leadership. (Approved by City Council on July 25, 1989.)

### **Vision**

SANTA CLARA: Superb, affordable services in a caring community that values our rich history and nurtures technologies that build the future.

In April 2005, the City Council adopted the Council priority and supporting principles for fiscal years 2005-06 and 2006-07.

### **Council Priority:**

The City Council priority is to focus on successful completion of existing City projects, postpone new City projects and proposals, and operate within Council adopted budget principles and priorities, with the goal of guiding the City successfully through the economic downturn.

### **Supporting Principles:**

- Maintain Superb/Affordable Core Services,
- Foster Public Trust/Demonstrate Leadership,
- Work Efficiently with Focus on Fiscal Responsibility,
- Support and Celebrate Community/Volunteer Partnerships,
- Pro-active Economic Development/Fiscal Partnerships.

The City Manager, with the assistance of City department heads, has developed implementation plans for achieving these goals and the related objectives. Quarterly status reports of accomplishments are prepared and presented to the City Council as several action plans related to each goal are completed.

## **MAJOR CITY INITIATIVES**

### **Public Facilities and Special Programs**

#### New Public Facilities

The City has been upgrading or adding new facilities to enhance its service delivery to citizens. During fiscal year 2004-05, the City celebrated its first full-year of operation of its Central Park Library. The 80,000 sq. ft. facility provides nearly twice as much public space as the old facility, seats for almost 500 readers and many new service areas. There are two community rooms with a seating capacity of over 100 persons. For smaller meetings, the Sycamore conference room seats 12 persons and there are three small group study rooms for four persons or less. The Technology Center is a computer training room with 16 workstations and there are more than 100 computers throughout the library for public use. The two-story facility is a showcase for public art featuring seven artists with fifteen permanent installations. It is estimated that this new library in its present configuration will house a collection of nearly 400,000 items.

#### Parks and Recreation

During fiscal 2004-05, the construction started on the expansion of the Senior Center. When completed, the expanded Senior Center will include a fitness facility, lap pool, therapeutic pool, and expanded social and recreation services to seniors and the disabled. This will be the first major addition to the Center in many years. As a joint project with Santa Clara Unified School District, construction was completed on a 350-seat community theater complex at Wilcox High School. It provides a community theater for use by the School District as well as for local theater groups. In addition, an expansion project at the Community Recreation Center is underway. Phase 1 was completed. Phase II is currently on hold. Live Oak Park at Rivermark was completed. In addition, there are a number of other projects underway to improve park and recreation facilities in the City.

### **Community Information and Technology**

Over the last few years the City has been undergoing a period of major technological improvement and innovation in its programs and processes. Some of the significant system issues and enhancements include the following:

#### Finance and Human Resources Management System (FHRMS)

During fiscal year 2004-05, the City completed its implementation of an enterprise-wide system for personnel, payroll, and general ledger accounting, known as FHRMS. Each phase of the four-phase project was brought in on schedule and under budget. The City is currently upgrading the Payroll/Human Resources module to take advantage of technologically advanced functionalities.

#### Utilities Management Information System (UMIS)

During fiscal year 2004-05, the Municipal Services Division implemented numerous technology projects that significantly improved and expanded customer service and utility billing operations. The technology projects being implemented are consistent with the overall strategic vision of Municipal Services and the City's utilities to improve customer service, streamline operations, and improve billing accuracy. The projects completed during fiscal year 2004-05 heavily focused on responding to customer demands (residential, commercial, and industrial) for expanded access to services, as well as additional service alternatives. By incorporating

business process improvement efforts as part of the technology projects, the implementation of these projects was successfully completed without adding budgetary resources. The following are the most significant accomplishments during fiscal year 2004-05.

- Implemented a new call center solution that consists of Interactive Voice Response (IVR) and Automated Call Distribution (ACD) platforms that are integrated to the City's Utility Billing/Customer Information System. The new call center solution improves customer service by:
  - Providing customers the ability to obtain automated services 24 hours a day and make payments on their accounts with a credit card via an automated prompt,
  - Allowing customers to select either English or Spanish as the preferred language when interacting with the system,
  - Reducing the response time with improved call routing and call management, including the system prompting the Customer Service Representative with the caller's account number simultaneously with the call transfer,
  - Improves call management by providing detailed call reporting and tracking statistics that will allow management to effectively manage resources,
  - Provides call recording to improve the training and mentoring of Customer Service Representatives.
- Implemented new utility programs such as Sewer Capacity Charge and Green Power in UMIS.
- Leveraged technology to streamline key business processes such as delinquency processing, service order processing, reconciliation, credit control and cashiering.
- Reduced postage cost, improved the bill print process, and supported targeted marketing by implementing a new bill print interface between UMIS and the City's Vendor.
- Increased timely access to key billing and customer information by implementing a browser-based Executive Information System (EIS).

## **Land Use/Neighborhood Issues**

### North of Bayshore Area

The North of Bayshore area of the City includes the Convention Center, Paramount's Great America Theme Park, and a number of commercial, industrial and residential developments including the Sun Microsystems campus. The North of Bayshore area has been a major center of development activity over the past several years. A number of projects have either been finished or are underway that will enhance this area. They include the replacement of a fire station, the opening of a police sub-station, and construction of Phase 1 of the San Tomas Aquino Creek Trail. Construction is slated to begin soon on the expansion of the Convention Center Ballroom. The \$17.45 million project will complete construction in 18 months and is expected to cover its operating costs. Phases I and II of the Rivermark-Agnews West Campus development on 213 acres, which has been under construction since 2001, are complete. The entire project consists of over 3,000 housing units, a retail area with major supermarket, hotel and public facilities.

### Housing Programs

The City continues to support the availability of affordable housing in the City, including various grant programs to non-profit agencies that provide housing services to Santa Clara residents such as Catholic Charities, Council on Aging, Emergency Housing Consortium-LifeBuilders, Silicon Valley Independence Living Center, Next Door – Solutions to Domestic Violence, and Project Sentinel.

During fiscal year 2004-05, the City funded \$5,630,000 to set-aside 10% of the new units for low- and moderate-income households at the following projects:

- Citation Homes / Rivermark BMP – 26 units;
- Sobrato El Camino Real BMP – 31 units;
- Bowers Townhouses BMP – 2 units;
- Marina Playa BMP – 4 units;
- Vidovich Buckingham BMP – 6 units, and
- Prometheus Rivermark BMP – 15 units.

These subsidized units will remain affordable for 55 years.

The City approved funding of \$720,933 to the Santa Clara Unified School District to undertake the second phase of Casa del Maestro affordable housing project for teachers. Phase two will consist of twenty apartments. The City appropriated \$940,000 for the acquisition of approximately two acres of undeveloped land located at the corner of San Tomas Expressway and Monroe Street for future affordable housing development. Additional funding of \$250,000 was approved for mortgage financing for moderate-income homebuyers under the First Time Homebuyers Financing Program. In addition, an appropriation of \$1,200,000 was made to pay off the CalHFA HELP Loan used for development of the 42 unit Gateway Santa Clara Senior Housing Project.

Since establishing the Housing Programs Fund in 1990, the City and Redevelopment Agency have funded approximately \$93.2 million in assistance for programs and projects that increase, rehabilitate and maintain affordable housing for low and moderate income households. These funds have assisted or will assist in the development of over 1,165 new housing units and the acquisition or rehabilitation of 565 units of existing housing for low and- moderate-income households. The assisted housing units and the provision of affordable housing has provided affordable housing opportunities for approximately 2,559 low-income households and over 471 moderate-income households.

### **Economic Development**

#### Redevelopment Agency – North of Bayshore Project Area Long-Term Financial Plan

The North of Bayshore Redevelopment Project Area is one of the key elements of the City's economic development program. Staff developed a long-range financial plan for this project area that outlines significant projects which are either in progress or are planned for the area. During fiscal year 2002-03, \$44 million of tax increment bonds were issued to fund these projects. The funding and the desirable projects, which include a fire station, future branch library, and expansion of the Convention Center ballroom and parking garage, are consistent with the economic development goals of the City.

### Traffic Mitigation

The City has committed significant resources from traffic mitigation fees and special assessment bonds to projects that will alleviate traffic congestion in the major industrial areas of the City. These projects are designed to promote business development and retention. The current program includes the upgrade of traffic signal interconnect systems and installation of new traffic signals to meet demands of increased vehicular traffic. With more than 45 miles of bike lanes, routes and paths, Santa Clara is bike commuter friendly. Current plans call for additional links to popular routes connecting light rail and the new Rivermark community.

### **Santa Clara Utilities**

#### Santa Clara Electric Utility d.b.a. Silicon Valley Power

The City continues to proactively address the electricity needs of the community to better serve the City's businesses and residents. To meet the power needs of City consumers and to ensure increased independence by utilizing self-generated power, the City launched a \$177.2 million in-city 147MW power generation facility, the Donald Von Raesfeld Power Plant. Located in the industrial area of the City, this high-efficiency gas turbine plant will produce about one-third of Santa Clara's electricity. In addition, the City finished the construction of the 115kv Northern Receiving Station to upgrade the electric distribution system and to meet load growth and customer service requirements. Another major project for Silicon Valley Power during this fiscal year was to construct 230kv bus and transmission lines to connect to the Northern Receiving Station. This four-mile combination of overhead and underground lines increases our Utility's already high reliability by adding points of entry for electricity coming into Santa Clara and increases the ability of Silicon Valley Power to serve increasing needs for energy.

Consistent with the City's Strategic Plan for the Santa Clara Electric Utility, adopted by the City Council in 1996, Silicon Valley Power has been very effective in leveraging generation assets to reduce costs and build a cost reduction account. This account will ensure the stability of the City's electric rates in future fiscal years.

#### Water and Sewer Utilities

In addition to providing efficient and affordable water and sewer utility services to Santa Clara residents and businesses, the City continues to undertake programs to improve water quality and water supply reliability for its residents and to minimize treated sewage effluent discharge into the South Bay. The City has also committed additional funding to retrofit the City's existing water storage tanks to meet the current seismic safety standard. With federal grant funding, the Water Utility has completed a project to ensure that the City's water transmission and distribution facilities have enhanced security protections.

The City continues to expand its recycled water program. Currently 13 City parks, the Santa Clara Youth Soccer Park, City Cemetery and Santa Clara Golf and Tennis Club are using recycled water. Overall, City departments are saving approximately \$120 thousand annually and it is estimated that the number will exceed \$700 thousand with the launch of the Donald Von Raesfeld Power Plant. In addition, the recycled water customers are saving over \$500 thousand annually over the cost of potable water.

## **FINANCIAL INFORMATION**

### **Internal Controls**

The management of the City is responsible for establishing and maintaining internal controls designed to ensure that the assets of the City are protected from loss, theft or misuse, and that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above stated framework. City management believes the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

### **Single Audit**

As a recipient of federal financial assistance, the City is responsible for establishing and maintaining adequate internal controls to ensure compliance with applicable laws and regulations related to those programs. Internal controls are subject to periodic evaluation by management and the City's independent certified public accountants.

As part of the City's single audit, tests are made to determine the adequacy of internal controls, including that portion related to federal financial assistance programs, and that the City has complied with applicable laws and regulations. The results of the City's single audit for the year ended June 30, 2004, published in a separately issued report, indicated that there were no material weaknesses in internal controls. The City's single audit for the year ended June 30, 2005 will be completed in January 2006. Management believes that there will be no findings of material weaknesses in internal controls.

### **Budgetary Controls**

As part of the City's internal controls, it maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the majority of the City funds are included in the annual appropriated budget. In addition, each year a Capital Improvement Project Budget is adopted and a Five Year Financial Plan is updated and accepted by the City Council. The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is at the object category level. The City Manager may transfer appropriations from one program to another within the same fund and the object category of a department without approval from the City Council. All other transfers must be approved by the City Council. The City also maintains an encumbrance accounting system as one technique for accomplishing budgetary control. Encumbrances outstanding at year-end are reported as reservations of fund equity since they do not constitute expenditures or liabilities under GAAP.

As demonstrated by the statements and schedules included in the Required Supplementary Information and Supplementary Information sections of this report, the City continues to meet its responsibility for sound financial management.

## **Measurement Focus and Basis of Accounting**

All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when received in cash, except for revenues susceptible to accrual and revenues of a material amount that have not been received at the normal time. Revenues considered susceptible to accrual are those that are measurable and available to finance the government operation during the year. Expenditures, other than accrued interest on general long-term debt, are recorded at the time liabilities are incurred. The measurement focus of governmental funds is available financial resources. Therefore, long-term assets and liabilities are not reported in governmental funds but instead are reported in the Entity-wide financial statements.

All proprietary funds are accounted for using the full accrual basis of accounting. Under the full accrual basis, revenues are recorded when they are earned and expenses are recorded as soon as they result in liabilities for benefits received, notwithstanding that the receipt of revenues or payment of expenses may take place, in whole or in part, in another accounting period. The measurement focus of these funds is capital maintenance and therefore, all fund assets and liabilities are reported in the fund.

## **OTHER INFORMATION**

### **Independent Audit**

The City Charter and State of California statutes require the City to have an annual audit by an independently certified public accountant. The accounting firm of Maze & Associates, Certified Public Accountants, was selected by the City Council. In addition to meeting the requirements set forth in City Charter and State statutes, the audit is designed to meet the requirements of the federal Single Audit Act of 1984, as amended in 1996, and related OMB Circular A-133. The auditors' report on the basic financial statements and the supplementary combining statements and schedules are included in the financial section of this report. The auditors' reports related specifically to the single audit are included in a separately issued single audit document.

### **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Santa Clara for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004. The City has received this prestigious award over the past thirteen years. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Staff believes that our current Comprehensive Annual Financial Report (CAFR) continues to meet the Certificate of Achievement Program's requirements and is submitting it to the GFOA to determine its eligibility for another certificate. In addition, over the past fourteen years, the City has received the Certificate of Award for outstanding financial reporting from the California Society of Municipal Finance Officers (CSMFO). This CAFR is also being submitted to CSMFO for such recognition for meeting professional standards.

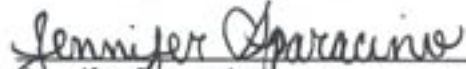
### Acknowledgments

We would like to thank the Mayor and City Council for their support in establishing the policies for guiding the financial operations of the City in a responsible and progressive manner. Finally, we wish to acknowledge the excellent participation and professional contribution by the City staff and the City's auditors, Maze & Associates, in the preparation of this document. Their dedication in preparing the City's Comprehensive Annual Financial Report and their efforts in preparing a document that is understandable and useful to the residents of the City and other readers is greatly appreciated.

Respectfully submitted,



Mary Ann W. Parrot, CPA  
Director of Finance



Jennifer Sparacino  
City Manager

**CITY OF SANTA CLARA**  
**Comprehensive Annual Financial Report**  
**June 30, 2005**

**ROSTER OF COUNCIL AND COMMISSION MEMBERS**

**CITY COUNCIL**

**Mayor**  
**Councilmember**  
**Councilmember**  
**Councilmember**  
**Councilmember**  
**Councilmember**  
**Councilmember**

**Patricia M. Mahan**  
**Dominic J. Caserta**  
**Will Kennedy**  
**Patrick Kolstad**  
**Jamie L. Matthews**  
**Jamie McLeod**  
**Kevin Moore**

**BOARD OF LIBRARY TRUSTEES**

Omar Ahmad, Robert Byrd, Laura G. Reeve,  
Sandra S. Rich, Jack Spillane

**CIVIL SERVICE COMMISSION**

Eva Combs, Mohammed M. Nadeem Ph.D,  
Robert T. Owens, Randy Preston,  
Beverly Lynne Silva

**CULTURAL ADVISORY COMMISSION**

Sheilah Altomare, Michelle Castro,  
Martin A. David, Marwan A. Fawal,  
Jacqueline Moore, Art Silva, Phal J. Vaswani

**HISTORICAL & LANDMARKS COMMISSION**

Leigh A. Booker, Jim Boynton, Lorie Garcia,  
Mary Ann Marinshaw, Gerald McKee,  
Charles A. Petersen, Ed Richards

**INTERNATIONAL EXCHANGE COMMISSION**

Beatrice Costa, Christina R. Francisco,  
Maria Alice Jensen, Heidi M. Kozlowski,  
James Mathre, Eugene Mirabella, Peter Yoon

**PARKS AND RECREATION COMMISSION**

Carole A. Cooper, Lio Francisco, Julie Frazier,  
Vonna Gissler, Steve Lee, Jerry Marsalli,  
Chuck Seymour

**PLANNING COMMISSION**

Duarte Braga, Karen Hardy, Gap Kim,  
Joe Kornder, Tony Marine, Mike Rodriguez,  
Mohammed A. Sarodi

**SENIOR CITIZENS ADVISORY COMMISSION**

Marjorie H. Banko, Ann Creighton, Patrick Driscoll,  
Carolyn G. McAllister, Doris M. Modesitt,  
Cleo M. Stuckrath, Bessie Vizzusi-Gruhlke

**YOUTH COMMISSION**

Alisa Alexander, Jeoffrey Batangan,  
Andrea Butkovic, Leslie Harbinson, Carley Kibler,  
Noah Lee, Blaze Mancillas, Nikhil Marathe,  
Nathan Mertz, Candace Nisby, Tracey Ottey,  
Angela Prochnow, Gary Schwartz,  
Alyssa Whitcomb, Julia Wobbe

**HOUSING REHABILITATION LOAN COMMITTEE**

Anne Kepner, Brice McQueen, Michelle Smith,  
Jamie Matthews

**CITY OF SANTA CLARA**  
**Comprehensive Annual Financial Report**  
**June 30, 2005**

**EXECUTIVE MANAGEMENT TEAM**

**CITY MANAGER**  
Jennifer Sparacino

**CITY CLERK**

Rod Diridon, Jr.

**CITY ATTORNEY**

Michael R. Downey

**CHIEF OF POLICE**

Stephen D. Lodge

**FIRE CHIEF**

Phil Kleinheinz

**DIRECTOR OF ELECTRIC UTILITY**

Junona Jonas

**DIRECTOR OF WATER & SEWER UTILITIES**

Robin G. Saunders

**DIRECTOR OF STREETS &  
AUTOMOTIVE SERVICES**

Richard J. Mauck

**DIRECTOR OF INFORMATION TECHNOLOGY**

Vacant

**ASSISTANT CITY MANAGER**

Ronald E. Garratt

**DEPUTY CITY MANAGER**

Carol L. McCarthy

**DIRECTOR OF PUBLIC WORKS**

Steve Yoshino

**CITY ENGINEER**

Rajeev Batra

**DIRECTOR OF PLANNING & INSPECTION**

Kevin Riley

**DIRECTOR OF FINANCE**

Mary Ann W. Parrot, CPA

**DIRECTOR OF HUMAN RESOURCES**

Renée Rungis

**CITY LIBRARIAN**

Karen Saunders (Interim)

**DIRECTOR OF PARKS & RECREATION**

Larry Wolfe

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Santa Clara,  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Nancy L. Ziehl*

President

*Jeffrey R. Enen*

Executive Director

# California Society of Municipal Finance Officers

Certificate of Award

*Outstanding Financial Reporting 2003-04*

Presented to the

*City of Santa Clara*

*This certificate is issued in recognition of meeting professional standards and criteria in reporting  
which reflect a high level of quality in the annual financial statements  
and in the underlying accounting system from which the reports were prepared.*

*February 24, 2005*

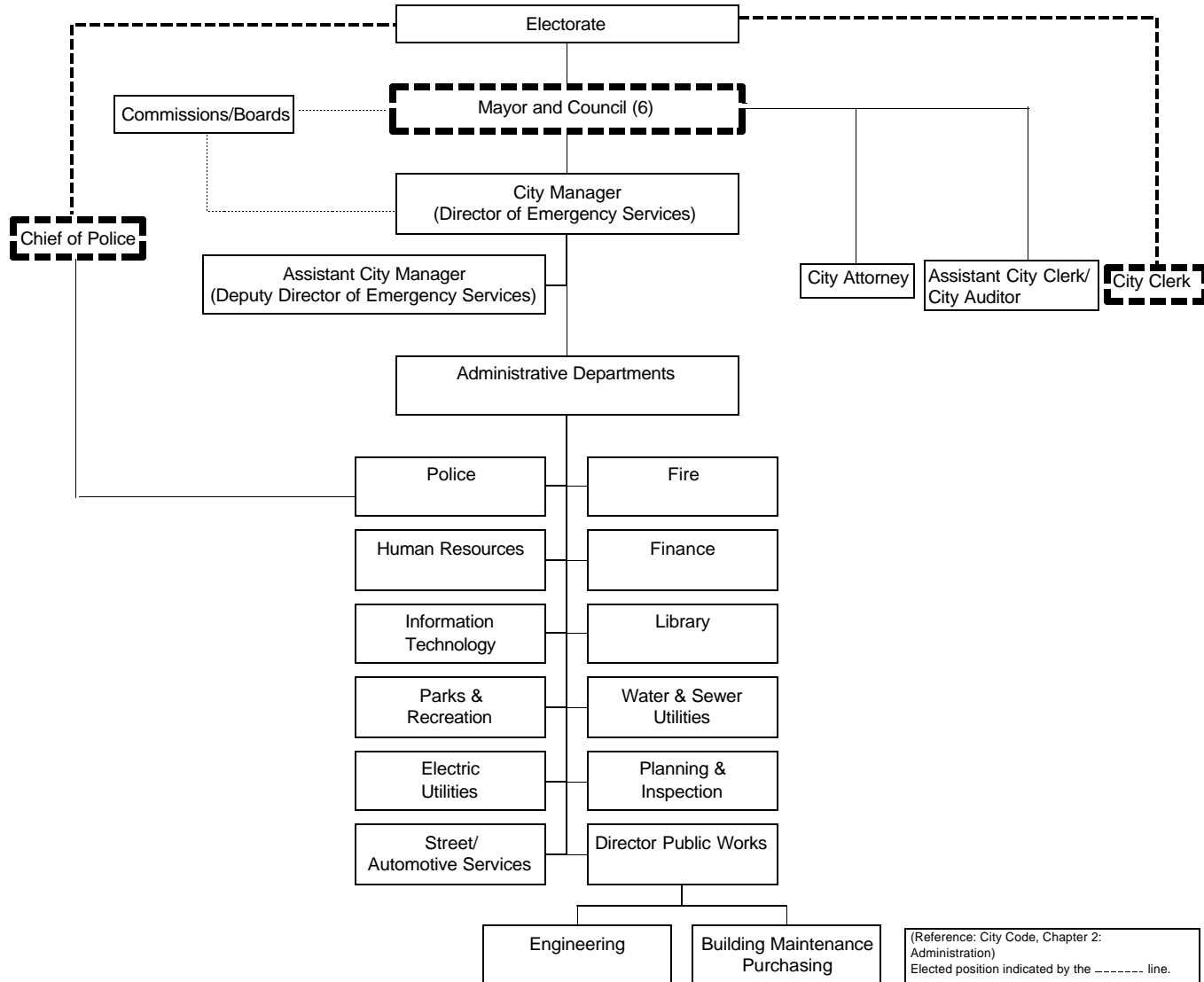
*William J. Thomas*

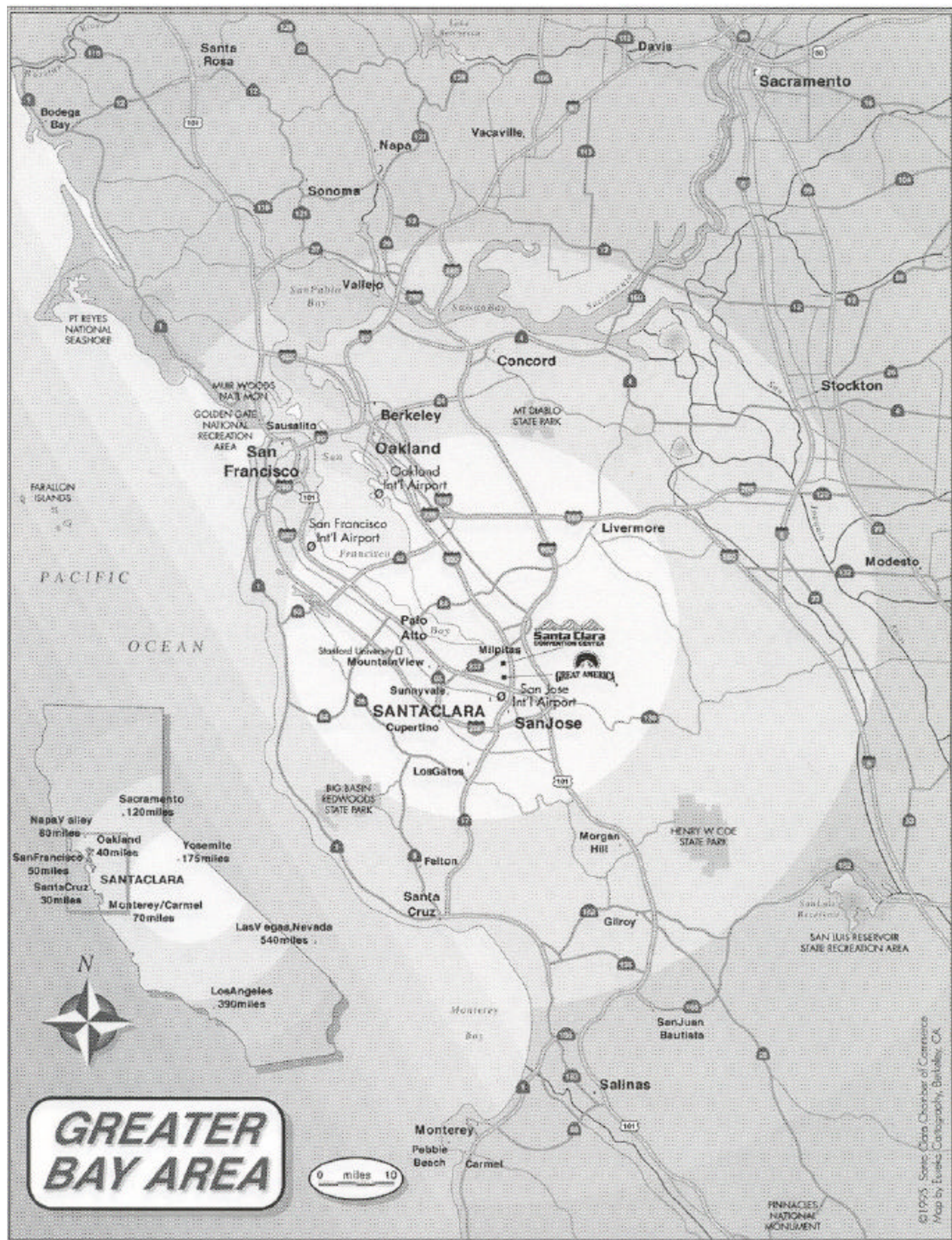
Bill Thomas, Chair  
Professional & Technical Standards Committee

*Dedicated to Excellence in Municipal Financial Management*



# CITY OF SANTA CLARA ORGANIZATION CHART





**ACCOUNTANCY CORPORATION**

1931 San Miguel Drive - Suite 100  
Walnut Creek, California 94596  
(925) 930-0902 • FAX (925) 930-0135  
E-Mail: [maze@mazeassociates.com](mailto:maze@mazeassociates.com)  
Website: [www.mazeassociates.com](http://www.mazeassociates.com)

**INDEPENDENT AUDITOR'S REPORT  
ON BASIC FINANCIAL STATEMENTS**

To the Honorable Mayor and Members of the City Council  
City of Santa Clara, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Santa Clara as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Santa Clara as of June 30, 2005 and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States of America.

Management's Discussion and Analysis and Required Supplemental Information are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The supplemental information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic statements of the City of Santa Clara. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical section listed in the Table of Contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



November 4, 2005

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the City of Santa Clara's (City) Comprehensive Annual Financial Report (CAFR) presents a narrative overview and analysis of the financial activities of the City for the fiscal year 2004-05. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

### **FISCAL YEAR 2004-05 FINANCIAL HIGHLIGHTS**

In fiscal year 2004-05 the Silicon Valley's economy appeared to be turning the corner with the region working its way out of one of the most difficult downturns to hit our area. The State's continuing budget crisis remained an issue of local concern. Key City revenue sources showed mixed results with property taxes and transient occupancy taxes down while sales tax was moderately up compared to last year. In addition, unemployment in the City which was around 8% last year improved to around 6% this year. This contrasts with unemployment rates of under 2% only three years ago. Finally, in the ongoing effort to help balance the State budget and fund public schools, approximately \$3.5 million of the City's property tax revenue and \$1.5 million in vehicle license fees were shifted to the State in fiscal year 2004-05.

On a brighter note, the population of the City continued to grow despite the decline in the local economy. According to the California Department of Finance's Demographic Research Unit the City's population grew from 107,200 people in 2004 to 109,106 people in 2005. A primary factor contributing to this growth is the new Rivermark development. When fully built out, approximately 3000 new residences will be added to the City and to the tax roll of the County Assessor.

Additional financial highlights of fiscal year 2004-05 include:

#### *Citywide:*

- The City's total net assets (assets exceeding liabilities) were \$1,554 million in fiscal year 2004-05, a \$25 million increase from the prior year.
- Total City revenues, including program and general revenues, were \$598 million, a decrease of \$24 million from the prior year, while total expenses were \$573 million, a decrease of \$37million.
- Governmental net assets were \$691 million, a decrease of \$1 million, while net assets in business activities were \$863 million, an increase of \$26 million.
- Governmental program revenues were \$32 million, an increase of \$10 million from the prior year.
- Governmental program expenses were \$166 million in fiscal year 2004-05, an increase of \$16 million from prior year.
- Revenues from business-type activities were \$420 million in fiscal year 2004-05, down \$42 million from the prior year.
- Expenses of business-type activities were \$407 million in fiscal year 2004-05, a \$54 million decrease from the prior year.

*Fund level:*

- General Fund revenues of \$111 million represented an increase of \$12 million from prior year amounts.
- General Fund expenditures of \$119 million were \$2 million more than the prior year.
- General Fund fund balance of \$78.8 million as of June 30, 2005 is \$3.5 million less than the prior fiscal year fund balance.

## **OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT**

This Comprehensive Annual Financial Report is presented in three parts:

- 1) Introductory Section, which includes the Transmittal Letter and general information,
- 2) The Basic Financial Statements, which include the auditor's opinion, the management discussion and analysis, the government-wide and the fund financial statements, along with the Notes to these financial statements, the required Supplementary Information, and the Combining Statements for Non-major Governmental Funds and Fiduciary Funds,
- 3) Statistical Information.

### **The Basic Financial Statements**

The Basic Financial Statements are comprised of the City-wide Financial Statements and the Fund Financial Statements. These two sets of financial statements provide two different views of the City's financial activities and financial position—long-term and short-term.

The City-wide Financial Statements provide a long-term view of the City's activities as a whole, and is comprised of the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by private corporations. The Statement of Activities provides information about all the City's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues and/or expenses of each City program. The Statement of Activities explains in detail the changes in Net Assets for the year.

The City-wide Financial Statements group all the City's activities into government-type activities and business-type activities, as explained below. All the amounts in the Statement of Net Assets and the Statement of Activities are separated into governmental activities and business-type activities to provide a summary of these two activities of the City as a whole.

The Fund Financial Statements report the City's operations in more detail than the government-wide statements and focus primarily on the short-term activities of the City's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the specific financial activities of the City and are presented individually, while the activities of non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. Major Funds are explained below.

The fiduciary statements provide financial information about the activities of the funds for which the City acts solely as agent.

Together, all these statements are now called the Basic Financial Statements; formerly they were called the General Purpose Financial Statements.

### *The City-wide Financial Statements*

The Statement of Net Assets and the Statement of Activities present information about the following:

- **Governmental Activities**—All of the City's basic services are considered to be governmental activities. These services are shown as Functions or Programs on the Statement of Activities. These services are supported by general City revenues such as taxes, and by specific program revenues such as developer fees.

The City's governmental activities also include the activities of two separate legal entities, the Redevelopment Agency of the City of Santa Clara and the City of Santa Clara Public Facilities Financing Corporation, because the City is financially accountable for these entities.

- **Business-Type Activities**—All of the City's enterprise activities, including the electric utility, water utility, sewer utility, water recycling, solid waste, cemetery, Sports and Open Space Authority, Santa Clara Golf & Tennis Club and Santa Clara Convention Center are considered Business-Type Activities. Unlike governmental services, these services are supported by fees paid by users based on the amount of the service they use.

City-wide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole.

### *Fund Financial Statements*

Fund Financial Statements include governmental, enterprise and internal service funds as discussed below.

The Fund Financial Statements provide detailed information about each of the City's most significant funds, called Major Funds. Each Major Fund is presented individually, with all non-Major Funds summarized and presented only in a single column. The Non-Major Fund Statements are presented towards the end of this report.

Major Funds present the primary activities of the City for the year, and may change from year to year as a result of changes in the pattern of City's activities.

There are two Major Governmental Funds presented in the fund financial statements, the General Fund and the Redevelopment Agency.

Because the focus of individual governmental funds is narrower than that of the governmental activities in the City-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the City-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Comparisons of Budget and Actual financial information are presented only for the General Fund and other Major Funds that are Special Revenue Funds.

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

Enterprise and Internal Service Fund financial statements are prepared on the full accrual basis, as in the past, and include all their assets and liabilities, current and long-term. Proprietary funds provide the same type of information as the City-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the City's business-type activities as detailed above.

All of the City's enterprise funds are considered Major Funds and are presented individually in the Major Proprietary Fund financial statements. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for the acquisition and maintenance of its fleet of vehicles and for its management of non-dispatch communications systems. The activities City's Internal Service Funds are reported in the Proprietary fund financial statements. Since the City's Internal Service Funds provide goods and services only to the City's governmental and business-type activities, Internal Service Funds may not be Major Funds because their revenues are derived from other City Funds. These revenues are eliminated in the City-wide financial statements and any related profits or losses are returned to the Activities which created them, along with any residual net assets of the Internal Service Funds.

#### *Fiduciary Statements*

The City is the trustee or agent for certain employee benefit funds, assessment districts and other entities. The City's fiduciary activities are reported in the separate Statements of Fiduciary Net Assets and the Statement of Changes in Assets and Liabilities. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its own operations.

### **FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE**

This analysis focuses on the net assets and changes in net assets of the City's Governmental Activities (Tables 1, 2 and 3) and Business-Type Activities (Tables 4 and 5) presented in the City-wide Statement of Net Assets and Statement of Activities that follow.

## Governmental Activities

**Table 1**  
**Governmental Net Assets at June 30, 2005**  
**(in Millions)**

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Cash and investments	\$355	\$379
Other assets	80	69
Capital assets	<u>533</u>	<u>529</u>
<b>Total assets</b>	<b><u>968</u></b>	<b><u>977</u></b>
Long-term debt outstanding	235	249
Other liabilities	<u>42</u>	<u>37</u>
<b>Total liabilities</b>	<b><u>277</u></b>	<b><u>286</u></b>
Net assets:		
Invested in capital assets, net of debt	407	397
Restricted	168	157
Unrestricted	<u>116</u>	<u>137</u>
<b>Total net assets</b>	<b><u>\$691</u></b>	<b><u>\$692</u></b>

The City's net assets from Governmental Activities decreased to \$691 million in fiscal year 2004-05 from \$692 million in fiscal year 2003-04. This decrease is the Change in Net Assets reflected in the Statement of Activities, as shown in Table 2, and is explained below:

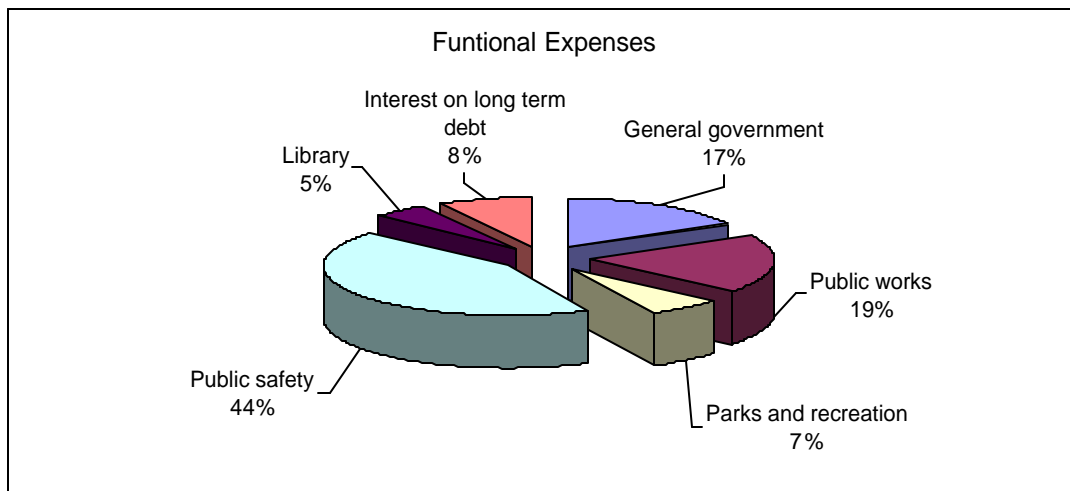
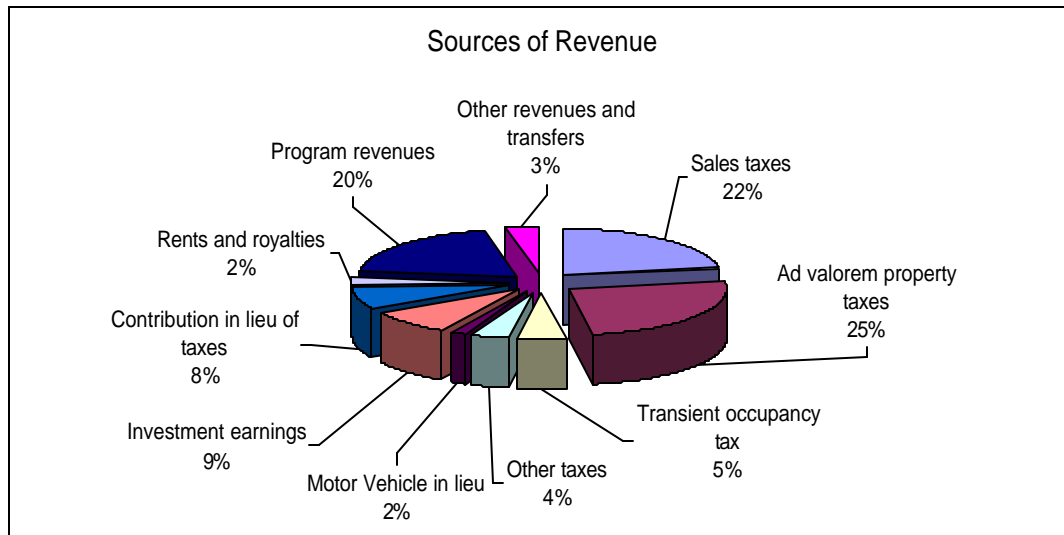
- Capital assets net of depreciation increased as a result of capital spending on new City facilities. They are discussed in the Capital Assets section below.
- Net assets invested in capital assets net of related debt were \$407 million in fiscal year 2004-05.

Restricted net assets are the portion of net assets which are legally restricted to use by grantors, debt covenants, contract or law. On June 30, 2005, restricted net assets totaled \$168 million. It comprised \$41 million restricted to the acquisition of capital assets, \$14 million for payment of debt service, \$109 million that may only be used for redevelopment activities and \$4 million restricted for other purposes.

Unrestricted net assets are the part of net assets that can be used to finance day-to-day operations or for other purposes without constraints established by debt covenants or other legal requirements. Unrestricted net assets amounted to \$116 million on June 30, 2005.

## Fiscal Year 2004-05 Government Activities

Chart 1



Statement of Activities presents program expenses and revenues and general revenues in detail. All elements in the Changes in Governmental Net Assets are summarized in Table 2.

**Table 2**  
**Changes in Governmental Net Assets**  
**(in Millions)**

	Governmental Activities	
	2005	2004
<b>Expenses</b>		
General administration	\$17	\$10
City clerk	1	1
City attorney	1	1
Human resources	2	2
Finance	6	6
Public works	31	25
Parks and recreation	11	11
Public safety:		
Police	32	31
Fire	29	28
Communication	4	4
Planning & inspection	5	5
Library	8	6
Interest on long term debt	13	15
Total expenses	<u>160</u>	<u>145</u>
<b>Revenues</b>		
Program revenues:		
Charges for services	22	9
Operating grants and contributions	5	5
Capital Grants and contributions	5	8
Total program revenues	<u>32</u>	<u>22</u>
General revenues:		
Taxes:		
Sales	36	36
Ad valorem property	40	41
Transient occupancy	8	7
Other	6	6
Motor vehicle in lieu	2	5
Contribution in lieu of taxes	12	12
Investment earnings	15	16
Net (decrease) in fair value of investments		(10)
Rents and royalties	3	12
Other	3	5
Transfers	2	2
Total general revenues	<u>127</u>	<u>132</u>
Total revenues	<u>159</u>	<u>154</u>
<b>Change in net assets</b>	<u><u>\$ (1)</u></u>	<u><u>\$9</u></u>

Total revenues from Governmental Activities were \$159 million in fiscal year 2004-05. As the Sources of Revenue Chart above shows, \$36 million, or 22% of the City's fiscal year 2004-05 governmental revenues was from sales tax, \$40 million, or 25% from ad valorem property taxes, and \$15 million, or 9% from investment earnings. Other taxes and fees accounted for the remainder. Sales tax revenues were the same as fiscal year 2003-04 indicating that the local economy has begun to turn around and City's taxable sales base has not declined as it had in previous fiscal years. Investment earnings declined \$1 million in fiscal year 2004-05 due to the continued drop in interest rates and a decline in cash balances.

A comparison of the top ten largest sales taxpayers by economic segment using the most recent quarterly data comparisons for 2005 and 2004 shows a few changes in the rank order among economic categories for sales taxpayers with the economic segments remaining the same. The top five economic categories are 1) New Auto Sales 2) Electronic Equipment, 3) Restaurants, 4) Office Equipment and 5) Light Industry.

A review of property taxpayers for fiscal year 2004-05 compared to fiscal year 2003-04 shows that the composition of the top property tax payers did not change significantly.

Total expenses were \$160 million in fiscal year 2004-05. The functional expenses chart above includes only current year expenses, which are discussed in detail in the Analysis of Major Governmental Section below. It does not include capital outlays, which are now added to the City's capital assets. In fiscal year 2004-05, the City added \$20 million in governmental capital assets and \$69 million in business-type capital assets, before depreciation. The composition of fiscal year 2004-05's additions is shown in detail at Table 7.

Table 2 shows that total governmental revenues were up \$5 million in fiscal year 2004-05. General revenues increased \$5 million while program revenues were also up \$10 million. Total government expenses increased by \$15 million to \$160 million in the current fiscal year. Of the total increase, General Administration expenditures accounted for \$7 million that was due to higher retirement pool contribution costs in the General Fund and an increase in expenditure in the Special Revenue Funds. The result is a decrease in net assets of governmental activities by \$1 million in fiscal year 2004-05.

Table 3 presents the net expense of each of the City's largest programs. Net expense is defined as total program cost less the revenues generated by those specific activities. The revenues of some activities may be greater than their costs.

**Table 3**  
**Governmental Activities**  
**(in Millions)**

	Net (Expense) Revenue From Services	
	2005	2004
General administration	(\$7)	(\$10)
City clerk	(1)	(1)
City attorney	(1)	(1)
Human resources	(2)	(2)
Finance	(6)	(5)
Public works	(22)	(17)
Parks and recreation	(9)	(9)
Public safety:		
Police	(30)	(29)
Fire	(27)	(27)
Communication	(4)	(4)
Planning & inspection	1	2
Library	(7)	(5)
Interest on long term debt	(13)	(15)
<b>Net (Expense) Revenue</b>	<b><u>(\$128)</u></b>	<b><u>(\$123)</u></b>

Net expenses increased \$5 million, or 4%, in fiscal year 2004-05 due to increase in expenses over the prior year. Most of the increase was in General Administration category as explained on the previous page.

Table 5 provides the net expenses of each of the City's enterprise funds. Net expense is defined as total program cost less the revenues generated by each enterprise fund. The expenses of some activities may be greater than their respective revenues.

**Table 5**  
**Business-Type Activities**  
**(in Millions)**

	Net (Expense) Revenue From Services	
	2005	2004
Net Revenues from Business-type activities:		
Utilities:		
Electric		
Retail	(\$1)	(\$14)
Wholesale	5	12
Water		
Sewer	3	
Water Recycling		
Solid Waste		(1)
Cemetery		
Sports and Open Space Authority	1	1
Santa Clara Golf and Tennis Club		
Santa Clara Convention Center	(1)	(2)
<b>Net (Expense) Revenue</b>	<b>\$7</b>	<b>(\$4)</b>

Table 5A provides the program and general revenues and expenditures for Business-Type Activities. Total program revenues declined \$44 million in fiscal year 2004-05, mainly as revenues from Electric wholesale activities declined \$50 million. Total expenses of Business-Type activities declined \$53 million, again as the result of declines in Electric Utility expenses. Total general revenues were higher in fiscal 2004-05 as a result of a favorable change in the values of investments.

**Table 5A**  
**Changes in Business-Type Net Assets**  
**(in Millions)**

	<u>Business-Type Activities</u>		
	<u>2005</u>	<u>2004</u>	<u>Net Change</u>
<b>Expenses</b>			
Utilities:			
Electric -			
Retail	\$194	\$203	(\$9)
Wholesale	166	208	(42)
Water	19	18	1
Sewer	9	12	(3)
Water Recycling	1	1	0
Solid Waste	14	15	(1)
Cemetery	1	1	0
Sports and Open Space Authority	0	0	0
Santa Clara Golf and Tennis Club	3	2	1
Santa Clara Convention Center	6	6	0
Total expenses	<u>413</u>	<u>466</u>	<u>(53)</u>
<b>Revenues</b>			
Program revenues:			
Charges for services	418	461	(43)
Operating grants and contributions	0	0	0
Capital Grants and contributions	2	1	1
Total program revenues	<u>420</u>	<u>462</u>	<u>(42)</u>
General revenues:			
Investment earnings	19	22	(3)
Net (decrease) in fair value of investments	(1)	(15)	14
Rents and royalties	3	1	2
Other	0	0	0
Transfers	(2)	(2)	0
Total general revenues	<u>19</u>	<u>6</u>	<u>13</u>
Total revenues	<u>439</u>	<u>468</u>	<u>(29)</u>
<b>Change in net assets</b>	<u><b>\$26</b></u>	<u><b>\$2</b></u>	<u><b>\$24</b></u>

## ***Business-Type Activities***

**Table 4**  
**Business-Type Net Assets at June 30, 2005**  
**(in Millions)**

	Business-Type Activities	
	2005	2004
Cash and investments	\$506	\$585
Other assets	165	173
Capital assets	<u>551</u>	<u>499</u>
<b>Total assets</b>	<b><u>1,222</u></b>	<b><u>1,257</u></b>
Long-term debt outstanding	275	281
Other liabilities	<u>84</u>	<u>139</u>
<b>Total liabilities</b>	<b><u>359</u></b>	<b><u>420</u></b>
Net assets:		
Invested in capital assets, net of debt	312	328
Unrestricted	<u>551</u>	<u>509</u>
<b>Total net assets</b>	<b><u>\$863</u></b>	<b><u>\$837</u></b>

The net assets of the City's business-type activities increased \$26 million in fiscal year 2004-05 as explained below:

- Unrestricted net assets were \$42 million higher than last year's balance mainly due to an increase in the Electric Fund.
- Investment in capital assets, net of debt decreased \$16 million over the prior year with the completion of major capital projects and recording of depreciation expenses in the Electric Fund.

## The City's Fund Financial Statements

The following table is a summary of the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance and the Enterprise Funds Statement of Net Assets and Statement of Revenue, and Expenses and Changes in Net Assets. The detailed activity is included in the basic financial statements section of this report.

**Table 6**  
**Financial Highlights at Fund Level at June 30**  
**(in Millions)**

	<u>2005</u>	<u>2004</u>
Governmental Funds		
Total assets	\$419	\$432
Total liabilities	90	89
Total fund balances	329	350
Total revenues	164	160
Total expenditures	186	208
Total other financing sources (uses)	1	3
Enterprise Funds		
Total assets	1,229	1,263
Total liabilities	366	426
Total net assets	864	837
Total revenues	452	469
Total expenditures	423	466
Total other financing sources (uses)	(2)	(2)

### *Governmental Funds*

As of June 30, 2005, the City's governmental funds reported combined fund balances of \$329 million, which is a decrease of \$21 million or 6% compared to last year. The decrease of \$11 million in the General Fund balance resulted from transfers to other City funds, a majority of which were to capital and debt service funds. The General Fund also transferred funds to subsidize operations of certain funds. The Redevelopment Agency Fund's balance decreased \$159 thousand. Other governmental funds fund balances decreased \$10 million in fiscal year 2004-05.

Governmental fund revenues increased to \$164 million this year from the prior year's total of \$160 million. Of the total \$4 million increase, \$12 million was in General Fund; RDA declined \$4 million while other government funds revenues also decreased by \$4 million. The General Fund accounted for \$111 million of this year's revenues, while Redevelopment Agency Fund revenues were at \$42 million and other governmental fund revenues were at \$11 million.

Governmental fund expenditures decreased to \$186 million in fiscal year 2004-05, down \$22 million from the prior year. Of this amount, \$120 million was expended by the General Fund, \$38 million by the Redevelopment Agency Fund, and \$28 million by other governmental funds.

### *Enterprise Funds*

Enterprise Fund equity totaled \$864 million at the end of the fiscal year, an increase of \$27 million over the \$837 million reported in fiscal year 2003-04. Enterprise operating revenues were \$236 million this year, down \$4 million from last year's revenues of \$232 million. Enterprise Fund operating expenses were \$247 million this year, down \$24 million from the prior year's \$223 million.

Non-operating revenues were \$216 million, down \$23 million from the prior year. Non-operating expenses were \$178 million, down \$64 million from the prior year.

## ***Analyses of Major Governmental Funds***

### **General Fund**

#### ***Revenues***

General Fund revenues of \$110.8 million were \$11.6 million less than the prior fiscal year, principally due to the reasons set forth below. Revenues were also \$4.2 million higher than budgeted amounts in several key categories.

#### ***Property Tax***

Property tax revenue for fiscal year 2004-05 was \$20 million compared to \$16.3 million in fiscal year 2003-04, an increase of approximately \$3.7 million or 23%. The major factor contributing to this increase was a reduction in the negative reassessment of secured and unsecured properties in the commercial and industrial sector and continued strength of the local residential real estate market. In addition, the City also received part of its Vehicle-in-Lieu Fee revenues as property tax as per the State budget resolution.

#### ***Sales Tax***

Sales tax is the largest revenue source, accounting for almost one third of the total General Fund revenues. Sales tax revenue for fiscal year 2004-05 was \$35.7 million, almost at the same level as in fiscal 2003-04. This is positive news as sales tax revenues have not declined during fiscal years 2004-05 and 2003-04 and reflects an improving local economy from levels experienced in early years of this decade.

#### ***Other Taxes***

Revenue from other taxes was \$11.7 million in 2004-05 compared with approximately \$11.1 million in 2003-04, an increase of 5%. The major reason for this revenue increase was an increase in the Transient Occupancy Tax from \$7.2 million in fiscal year 2003-04 to \$7.8 million in fiscal year 2004-05, an increase of approximately 8%. The occupancy at the local hotels/motels has been improving for the past two fiscal years.

#### *Licenses, Permits and Fines and Penalties*

Revenues for licenses, permits, fines and penalties were \$5.2 million in 2004-05 compared with \$4.7 million in 2003-04, an increase of approximately 11%. These figures reflect a slight increase in construction activity (building and related permits) and a moderate increase in Fines and Penalties.

#### *Charges for Services*

Charges for services were \$13.3 million in fiscal year 2004-05 compared with \$11.7 million in 2003-04, an increase of approximately \$1.6 million or 14%. The major reasons for this growth in revenue were an increase in Interdepartmental Service Charges and Recreation and Other Charges due to both increases in fees and activity level compared to the prior year.

#### *Contribution In-lieu of Taxes (CLT)*

Contribution in lieu of taxes was approximately \$12 million fiscal year 2004-05, an increase of \$.1 million over fiscal 2003-04. The results reflect slightly higher demand for electrical power as well as an increased contribution from the water utility in 2004-05 compared to the prior year.

#### *Interest and Rents*

Interest and rent revenues were \$9.5 million in fiscal year 2004-05 compared to \$9.9 million in fiscal year 2003-04, a decrease of approximately \$400 thousand or 4%. The main reason for this is the net decrease in the fair market value of the investment portfolio due to the rising interest rates. Because it is the City's investment policy to hold investments until maturity, changes in the fair market value of the portfolio are expected to fluctuate from year to year but not affect the portfolio's long-term return.

### ***Expenditures***

General Fund expenditures in fiscal year 2004-05 were \$119.5 million compared with \$117.3 million in fiscal year 2003-04, an increase of 2%. The major reasons for increases in expenditures are:

#### *Salary and Benefits*

Salary and benefits expenditures were \$94.7 million in fiscal year 2004-05 unchanged from 2003-04. This was due to elimination of certain full-time positions in 2004-05 and an on-going hiring freeze on other vacant positions. The total full-time benefited employee count in General Fund was 782.07 in fiscal year 2004-05. This represents a net decrease of 5.83 full-time equivalent (FTE) positions compared with fiscal year 2003-04. The decrease in FTEs was partially offset by rise in the cost of retirement benefits and increases in salaries based on negotiated agreements with the employee bargaining units.

#### *All Other Operating Expenditures*

Other operating expenditures, including materials, services, and supplies, internal service fund charges and minor capital outlays, were \$24.8 million in fiscal year 2004-05 compared with \$22.6 million in the prior fiscal year, an increase of 10%. The City continued to implement various cost saving measures in fiscal year 2004-05 due to slow growth in General Fund revenues.

### **Transfers**

Transfers out of the General Fund increased from \$14.1 million in fiscal year 2003-04 to \$16.1 million, principally due to higher transfers to the Capital Project Funds compared to the prior fiscal year. Debt service at \$5.9 million remains a major transfer out.

### **Fund Balance**

As of June 30, 2005, total General Fund fund balance was \$78.8 million, down \$3.5 million from fiscal year 2003-04. The Table 6A shows the breakdown of various components to fiscal 2004-05 General Fund fund balance and changes from the prior fiscal year.

**Table 6A**  
**General Fund Fund Balance at June 30**  
**(in Millions)**

	<u>2005</u>	<u>2004</u>	<u>Net Change</u>
Encumbrance, advances to other funds, and inventory	\$ 16.2	\$ 15.8	\$ 0.4
Designated for working capital	13.8	22.2	(8.4)
Designated for capital projects	20.9	23.0	(2.1)
Designated for land sale proceeds	14.7	14.3	0.4
Designated for building inspections	4.8	5.5	(0.7)
Designated for downtown revitalization	0.8	0.8	-
Undesignated	<u>7.6</u>	<u>0.7</u>	<u>6.9</u>
Total General Fund Fund Balance	<u>\$ 78.8</u>	<u>\$ 82.3</u>	<u>\$ (3.5)</u>

### **General Fund Budget Comparison**

Included in the Required Supplementary Information is the General Fund Schedule of Revenues and Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Legal Basis) for the year ended June 30, 2005. During the year, Council took action to amend the adopted General Fund budget.

The following is a summary of the impact of these actions:

**Table 6B**  
**General Fund Budget for the year ended June 30, 2005**  
**(in Millions)**

	<u>Original Budgeted Amount</u>	<u>Final Budgeted Amount</u>	<u>Net Change</u>
Revenues	\$ 106.1	\$ 106.7	\$ .6
Expenditures	\$ 117.3	\$ 120.4	\$ 3.1
Other Financing Sources (Uses)	\$ (5.3)	\$ (8.1)	\$ (2.8)

The increase in budgeted revenues was due to unanticipated receipts that resulted in higher expenditures. The increase in budgeted expenditures was mostly due to appropriation of grant funds received for augmentation of public safety and library services. The increase in budgeted other financing uses was for transfer out to Capital Project Funds funded from the Capital Projects reserve balances.

### **Redevelopment Agency Fund**

The purpose of the Redevelopment Agency (Agency) is to eliminate blight in its project areas, all of which are in the City, while ensuring an adequate stock of low and moderate income housing. The Agency's power to issue debt payable out of the incremental property taxes expected to be realized as a result of its redevelopment activities has expired as of January 1, 2004. The Agency's power of eminent domain in Bayshore North and University project areas has expired as of December 31, 1994. The agency may enter into development agreements with developers and others to further its purpose. The Agency's operations are funded primarily by property tax increments generated by increased assessments in the redevelopment areas.

The Redevelopment Agency Fund accounts for property tax increments and other Redevelopment Agency revenues used to construct or acquire capital assets in the Redevelopment Agency's project areas, as well as debt service expenditures on the Agency's debt.

The Agency's revenues were \$42.4 million in fiscal year 2004-05, a decrease of \$4.1 million over the previous fiscal year. Property tax increment revenues were \$19.9 million in fiscal year 2004-05, a decrease of \$4.7 million over the previous fiscal year due mainly to a decline in property valuation in the Agency's project areas. In addition the Agency was required to transfer \$2.9 million to the State Education Revenue Augmentation Reform Fund (ERAF) to help balance the State budget. Revenue from use of assets, primarily lease revenues, was \$19.5 million in fiscal year 2004-05 an increase of \$1.7 million. Interest earnings were up as a result of an adjustment in the fair market value of pooled cash and investments.

Agency expenditures were \$38.3 million in fiscal year 2004-05, an increase of \$500 thousand. This was due mostly to an increase in general administration costs.

The Fund's fiscal year end fund balance of \$175.6 million may be used only for redevelopment purposes; of this amount, \$55.9 million is reserved for encumbrances and debt service and \$119.7 million is designated for capital projects.

### **Other Governmental Funds**

These funds are not presented separately in the Basic Financial statements, but are individually presented as Supplemental Information.

## ***Analyses of Enterprise Funds***

### **Electric Utility (Silicon Valley Power)**

Retail operating revenues were \$183.1 million in fiscal year compared with \$180.6 million in fiscal year 2003-04, an increase of approximately 1.4 %. The main reason for the increase was higher power consumption by the industrial/commercial sector due to the improved economic activity especially among high-tech companies.

Retail operating expenses were \$192.9 million in fiscal year 2004-05 compared with \$169.3 million in fiscal year 2004-05, an increase of \$23.6 million or 13.9%. The operating expenses were higher primarily due to an increase in expenses associated with the operation of the newly completed DVR Power Plant including cost of purchased resources, operations and salaries and benefits, and depreciation.

Revenues of wholesale resources transactions declined to \$170.2 million in fiscal year 2004-05, down from \$219.8 million in fiscal year 2003-04. The cost of wholesale resources purchases declined as well from \$208.0 million in fiscal year 2003-04 to \$165.8 million in the current fiscal year.

Interest revenues declined to \$17.6 million in fiscal year from the prior year's level of \$20.9 million primarily due to lower investment portfolio yields. Interest expense went up to \$7.7 million from \$5.7 million as the City started paying interest on the 2003 Series A and B Revenue Bonds issued to finance DVR Power Plant.

The provision for Disputed Schedule Coordination Services (SCS) for \$24.0 million in fiscal year 2003-04 was reduced by \$13.1 million in fiscal year 2004-05 resulting from the settlement agreement between the City and Pacific Gas and Electric Company.

The Electric Utility Fund had \$672.8 million in net assets at June 30, 2005, an increase of \$21.9 million from the prior fiscal year. Of this amount, \$235.2 million was invested in capital assets, net of related debt; \$2.6 million was restricted as to use; and \$435 million was unrestricted. Electric Utility Fund is a participant in a number of joint ventures such as Northern California Power Agency (NCPA), the Transmission Agency of Northern California (TANC), and MS-R Public Power Agency (MSR).

### **Water Utility**

Operating revenues were \$18.1 million in fiscal year 2004-05 compared with \$17.9 million in fiscal year 2003-04, an increase of 1.1%. An 8% water rate hike in fiscal year 2004-05 and higher developer contributions for installed water connection services offset by late season rains contributed to higher revenues.

Operating expenses were \$18.8 million in fiscal year 2004-05 compared with \$18.5 million in fiscal year 2003-04, a small increase of 1.62%. The major reason for the higher expenditures was the increased purchase cost of treated water from the wholesale water agencies as a result of wholesale water rates. This is reflected in the materials, supplies and services category which showed \$14 million in expenses in fiscal year 2004-05 compared with \$13.8 million in fiscal year 2003-04, an increase of 1.5%.

The Water Utility Fund's net assets at June 30, 2005 were \$39.1 million, an increase of \$1.1 million over net assets from prior fiscal year.

### **Sewer Utility**

Operating revenues of the Sewer Utility increased to \$11.1 million in fiscal year 2004-05, up from \$10.8 million in fiscal year 2003-04, an increase of 2.77%. A 6% sewer rate increase instituted in fiscal year 2004-05 accounted for higher operating revenues.

Operating expenses were \$11.1 million in fiscal year 2005-06 compared with \$11 million in fiscal year 2003-04. The main reason for this increase was materials, supplies and services, which went up \$16 thousand due mainly to charges by the San Jose/Santa Clara Water Pollution Control Plant which provides treatment and disposal of the City's sewage. Another expense increase was due to higher salary and benefit costs which increased \$67 thousand in fiscal 2004-05. The investment in capital assets in fiscal year 2004-05 was \$10.5 million, a decrease of \$2.3 million from prior fiscal year.

The Sewer Fund, together with the City of San Jose, owns the San Jose/Santa Clara Water Pollution Control Plant, which is administered by the City of San Jose. The Fund's ownership share is approximately 20% of the assets, capital and operating costs. In fiscal year 2003-04 the City of San Jose reported that the Fund's equity in the Plant had increased \$2 million. The Sewer Fund reports these changes in equity in its statement of activities as non-operating revenues and expenses. During fiscal year 2004-05, the Sewer Fund contributed \$3.5 million to help buy "Pond A-18" from Cargil Corporation for WPCP buffer lands.

### **Water Recycling**

Operating revenues were \$859 thousand, a decrease of \$29 thousand from the prior year. Operating expenses were \$621 thousand, an increase of \$41 thousand. Net assets as of June 30, 2005 were \$2.6 million.

### **Solid Waste**

Operating revenues were \$14.4 million in fiscal year 2004-05 compared with \$13.5 million in fiscal year 2003-04, mainly due to a rate increase of approximately 1.3% implemented during the year. Operating expenses were \$14.4 million in fiscal year 2004-05 compared with \$14.5 million in fiscal year 2003-04. Net deficit at June 30, 2005 was \$2.8 million, a decrease of \$700 thousand from the June 30, 2004 deficit.

### **Cemetery**

This Fund accounts for the Mission City Memorial Park's operations. Operating revenues were \$0.5 million in fiscal year 2004-05, reflecting a \$56 thousand increase from prior fiscal year. Operating expenses were \$800 thousand in fiscal year 2004-05, a small increase compared to fiscal year 2003-04. Net assets at June 30, 2005 were \$100 thousand. This fund usually runs a deficit in its operation and capital activities, which is funded by an advance from the General Fund.

### **Sports and Open Space Authority**

This Fund accounts for the acquisition and preservation of open space within the City and the development of local sports activities. Operating revenues were \$1.3 million in fiscal year 2004-05 compared with \$1.4 million in prior fiscal year. Operating expenses were at \$26 thousand down slightly from the prior fiscal year. Net assets at June 30, 2005 were \$4.1 million.

### **Santa Clara Golf and Tennis Club**

This Fund accounts for the operations of the City's public golf course. Operating revenues were \$2.9 million in fiscal year 2004-05 compared with \$2.8 million in fiscal year 2003-04. Operating expenses were \$2.5 million in fiscal year 2004-05 and remain unchanged from the prior fiscal year. Net assets at June 30, 2005 were \$8 million.

### **Santa Clara Convention Center**

This Fund accounts for the operations of the Santa Clara Convention Center. Operating revenues were \$3.5 million in fiscal year 2004-05 compared with \$3.4 million in fiscal year 2003-04. Increases in events and conference related activities accounted for the increase in revenues. Operating expenses increased slightly to \$6 million in fiscal year 2004-05 compared with \$5.8 million in fiscal year 2003-04. Net assets at June 30, 2005 were \$21.5 million, all of which were invested in capital assets.

## CAPITAL ASSETS

At June 30, 2005 the City had \$533 million, net of depreciation, invested in a broad range of capital assets used in the Governmental Activities, and \$551 million, net of depreciation, in Business-Type Assets, as shown in Table 7 below (further detail may be found in Note 10 to the financial statements):

**Table 7**  
**Capital Assets at Year-end**  
**(in Millions)**

	<u>2005</u>	<u>2004</u>
<b><i>Governmental Activities:</i></b>		
Land	\$99	\$103
Construction in progress	15	52
Buildings and improvements	126	112
Other improvements	16	6
Machinery and equipment	62	45
Infrastructrure	384	364
Less accumulated depreciation	<u>(169)</u>	<u>(153)</u>
<b>Totals</b>	<b><u>\$533</u></b>	<b><u>\$529</u></b>
 <b><i>Business-type Activities:</i></b>		
Land	\$17	\$17
Construction in progress	4	166
Buildings and improvements	808	577
Machinery and equipment	14	14
Less accumulated depreciation	<u>(292)</u>	<u>(275)</u>
<b>Totals</b>	<b><u>\$551</u></b>	<b><u>\$499</u></b>

The Capital Improvement Project Budget for fiscal year 2004-05 and Five Year Financial Plan for fiscal year 2004-05 through fiscal year 2008-09 contain more detailed discussions of Capital Projects planned for the City of Santa Clara. The following are some of the major projects that were active in fiscal year 2004-05:

### City Projects:

- Transportation system improvements – These projects include street widening, resurfacing, traffic lights and other improvements throughout the City at a total authorized cost of \$9.3 million, of which \$2.3 had been expended through June 30, 2005
- Technology application and improvement projects – These projects include upgrade to City's Financial and Human Resources Management System (FHRMS) and replacement of personal computer and other hardware throughout the City at a total authorized cost of \$1.2 million, of which \$0.7 million has been expended through June 30, 2005.

- Redevelopment Agency Projects include parking garage modifications and improvements, infrastructure revitalization and various other projects.

#### Business-Type Activities Projects:

- 230 kV Transmission Project - This project is for the design and construction of a new 230 kV bus and transmission lines to connect the Northern Receiving Station. Authorized costs are \$35.1 million; costs incurred since the project inception are \$15.1 million.
- Generation Power Plant – This project to construct the Donald Von Raesfeld power generation plant is under construction, at an authorized cost of \$165 million. Costs incurred to date as of June 30, 2005, are \$144.3 million.
- Other electric projects include a Broadband Communication System Fiber Optics Network, expansion/renovation of transmission lines and distribution systems, and other projects.

## DEBT ADMINISTRATION

Each of the City's debt issues is discussed in detail in Note 11 to the financial statements. At June 30, the City's debt was comprised of the following:

**Table 8**  
**Outstanding Debt**  
**(in Millions)**

	Balance June 30, 2005	Balance June 30, 2004	Net Change
<b>Governmental Activity Debt:</b>			
Special Assessment Debt with City commitment	\$7	\$7	
Redevelopment Tax Allocation Bonds	140	145	5
Senior Secured Refunding Notes	2	7	5
Certificates of Participation 1997	14	14	
Insurance Funding Bonds Series 1997	20	20	
Certificates of Participation 2002A	24	25	1
Refunding Certificates of Participation, Series 2002B	28	31	3
<b>Business-type Debt:</b>			
Electric Utility Revenue Bonds, net of unamortized discount	275	280	5
State Water Resource Control Board Loan	nil	nil	nil
<b>Total Debt</b>	<b>\$510</b>	<b>\$529</b>	<b>\$19</b>

## **SPECIAL ASSESSMENT DISTRICT DEBT**

Special assessment districts in different parts of the City have also issued debt to finance infrastructure and facilities construction entirely in those districts. At June 30, 2005, a total of \$8.2 million in special assessment district debt was outstanding, issued by three special assessment districts. This debt is secured only by special assessments on the real property in the district issuing the debt, and is not the City's responsibility, although the City does act as these Districts' agent in the collection and remittance of assessments.

## **ECONOMIC OUTLOOK AND MAJOR INITIATIVES**

The economy of the City and its major initiatives for the coming year are discussed in detail in the accompanying Transmittal Letter.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This Comprehensive Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this Report should be directed to the City of Santa Clara Finance Department, at 1500 Warburton Avenue, Santa Clara, CA California 95050 or calling (408) 615-2340.

STATEMENT OF NET ASSETS AND STATEMENT  
OF ACTIVITIES

The Statement of Net Assets and the Statement of Activities summarize the entire City's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the City's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis—the effect of all the City's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between City funds have been eliminated.

The Statement of Net Assets reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Assets presents similar information to the old balance sheet format, but presents it in a way that focuses the reader on the composition of the City's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the City's Governmental Activities in a single column, and the financial position of all the City's Business-Type Activities in a single column; these columns are followed by a Total column that presents the financial position of the entire City.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects, Debt Service and Permanent Funds. Since the City's Internal Service Funds service these Funds, their activities are consolidated with Governmental Activities, after eliminating inter-fund transactions and balances. The City's Business Type Activities include all its Enterprise Fund activities.

The Statement of Activities reports increases and decreases in the City's net assets. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The format of the Statement of Activities presents the City's expenses first, listed by program, and follows these with the expenses of its business-type activities. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each governmental and business-type program. The City's general revenues are then listed in the Governmental Activities or Business-type Activities column, as appropriate, and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

Both these Statements include the financial activities of the City and the Redevelopment Agency of the City of Santa Clara, the City of Santa Clara Sports and Open Space Authority, and the City of Santa Clara Public Facilities Financing Corporation, which are legally separate but are component units of the City because they are controlled by the City, which is financially accountable for the Agency's activities.

**CITY OF SANTA CLARA**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2005**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and investments (Note 8):			
Pooled cash and investments	\$318,364,180	\$ 479,413,585	\$ 797,777,765
Investments with fiscal agent	36,887,541	27,030,629	63,918,170
Receivables (net of allowance for uncollectibles):			
Accounts	3,552,049	40,990,691	44,542,740
Interest	3,950,815	5,709,987	9,660,802
Loans, net of reserves (Note 2AA)	51,610,639	-	51,610,639
Special assessments	5,875,000	-	5,875,000
Intergovernmental	7,010,931	-	7,010,931
Materials, supplies and prepaids	331,531	5,469,866	5,801,397
Internal balances (Note 9D)	1,683,357	(1,683,357)	-
Land held for redevelopment (Note 2H)	5,400,270	-	5,400,270
Capital assets (Note 10):			
Land and construction in progress	113,748,570	20,410,416	134,158,986
Capital assets being depreciated, net	419,266,602	530,924,706	950,191,308
Investment in joint ventures (Note 13)	-	101,422,123	101,422,123
Other	323,858	12,583,444	12,907,302
<b>Total Assets</b>	<b>968,005,343</b>	<b>1,222,272,090</b>	<b>2,190,277,433</b>
<b>LIABILITIES</b>			
Accrued liabilities	24,702,558	70,294,539	94,997,097
Interest payable	3,670,928	4,483,767	8,154,695
Accrued compensated absences (Note 2 K)			
Due in one year	1,579,487	2,976,137	4,555,624
Due in more than one year	9,203,356	-	9,203,356
Unearned revenue	2,979,797	450,015	3,429,812
Landfill closure liability (Note 12)			
Due in one year	-	170,000	170,000
Due in more than one year	-	5,484,789	5,484,789
Long-term debt (Note 11)			
Due in one year	5,917,728	11,144,722	17,062,450
Due in more than one year	229,445,000	264,215,614	493,660,614
<b>Total Liabilities</b>	<b>277,498,854</b>	<b>359,219,583</b>	<b>636,718,437</b>
<b>NET ASSETS (Note 19)</b>			
Invested in capital assets, net of related debt	407,174,520	311,766,823	718,941,343
Restricted for:			
Capital projects	41,065,077	-	41,065,077
Debt service	13,517,959	-	13,517,959
Redevelopment activities	108,614,514	-	108,614,514
Other purposes	4,002,126	-	4,002,126
<b>Total Restricted Net Assets</b>	<b>167,199,676</b>	<b>-</b>	<b>167,199,676</b>
<b>Unrestricted Net Assets</b>	<b>116,132,293</b>	<b>551,285,684</b>	<b>667,417,977</b>
<b>Total Net Assets</b>	<b>\$690,506,489</b>	<b>\$ 863,052,507</b>	<b>\$ 1,553,558,996</b>

See accompanying notes to financial statements

**CITY OF SANTA CLARA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2005**

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenues		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:					
General Administration	\$ 23,179,742	\$ (5,847,335)	\$ 9,129,315	\$ 257,248	\$ -
City Clerk	691,347	-	-	-	-
City Attorney	1,078,661	-	7,500	-	-
Human Resources	1,729,961	-	-	-	-
Finance	6,172,398	-	619,435	-	-
Public Works	30,751,849	-	2,400,881	1,754,923	4,530,462
Parks and Recreation	10,805,741	-	1,848,165	366,523	-
Public Safety:				-	-
Police	32,006,734	-	1,396,957	491,475	-
Fire	29,062,758	-	1,747,191	335,972	-
Communication	3,996,641	-	-	7,000	-
Planning & Inspection	5,471,468	-	4,352,522	1,708,395	-
Library	7,897,939	-	223,895	543,357	-
Interest on long term debt	13,276,817	-	-	-	-
Total Governmental Activities	166,122,056	(5,847,335)	21,725,861	5,464,893	4,530,462
Business-type Activities:					
Utilities:					
Electric -					
Retail	190,928,489	3,453,206	193,491,975	-	-
Wholesale	165,790,104	-	170,165,379	-	-
Water	17,661,646	1,094,883	18,884,505	-	-
Sewer	8,434,216	612,352	12,065,191	-	-
Water Recycling	853,553	-	851,659	-	309,572
Solid Waste	13,694,415	648,735	14,404,704	-	-
Cemetery	732,987	35,746	525,605	-	-
Sports and Open Space Authority	23,653	2,413	1,316,814	-	-
Santa Clara Golf and Tennis Club	2,528,236	-	2,913,108	-	-
Santa Clara Convention Center	5,980,692	-	3,477,697	-	1,744,675
Total Business-type Activities	406,627,991	5,847,335	418,096,637	-	2,054,247
Total	\$ 572,750,047	\$ -	\$ 439,822,498	\$ 5,464,893	\$ 6,584,709
General Revenues:					
Taxes:					
Sales					
Ad valorem property					
Transient occupancy					
Other					
Intergovernmental, unrestricted:					
Motor vehicle in-lieu					
Contribution in lieu of taxes					
Investment earnings					
Net (decrease) in the fair value of investments					
Rents and royalties					
Other					
Transfers (Note 9A)					
Total General Revenues and Transfers					
Change in Net Assets					
Net Assets-Beginning					
Net Assets-Ending					

See accompanying notes to financial statements

**CITY OF SANTA CLARA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2005**

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets		
	Governmental Activities	Business-type Activities	Total
Governmental Activities:			
General Administration	\$ (7,945,844)	\$ -	\$ (7,945,844)
City Clerk	(691,347)	-	(691,347)
City Attorney	(1,071,161)	-	(1,071,161)
Human Resources	(1,729,961)	-	(1,729,961)
Finance	(5,552,963)	-	(5,552,963)
Public Works	(22,065,583)	-	(22,065,583)
Parks and Recreation	(8,591,053)	-	(8,591,053)
Public Safety:		-	
Police	(30,118,302)	-	(30,118,302)
Fire	(26,979,595)	-	(26,979,595)
Communication	(3,989,641)	-	(3,989,641)
Planning & Inspection	589,449	-	589,449
Library	(7,130,687)	-	(7,130,687)
Interest on long term debt	(13,276,817)	-	(13,276,817)
Total Governmental Activities	(128,553,505)	-	(128,553,505)
Business-type Activities:			
Utilities:			
Electric -			
Retail	-	(889,720)	(889,720)
Wholesale	-	4,375,275	4,375,275
Water	-	127,976	127,976
Sewer	-	3,018,623	3,018,623
Water Recycling	-	307,678	307,678
Solid Waste	-	61,554	61,554
Cemetery	-	(243,128)	(243,128)
Sports and Open Space Authority	-	1,290,748	1,290,748
Santa Clara Golf and Tennis Club	-	384,872	384,872
Santa Clara Convention Center	-	(758,320)	(758,320)
Total Business-type Activities	-	7,675,558	7,675,558
Total	(128,553,505)	7,675,558	(120,877,947)
General Revenues:			
Taxes:			
Sales	35,695,669	-	35,695,669
Ad valorem property	39,927,854	-	39,927,854
Transient occupancy	7,863,075	-	7,863,075
Other	6,173,099	-	6,173,099
Intergovernmental, unrestricted:			
Motor vehicle in-lieu	2,488,850	-	2,488,850
Contribution in lieu of taxes	11,992,617	-	11,992,617
Investment earnings	14,707,425	19,078,664	33,786,089
Net (decrease) in the fair value of investment	(483,875)	(805,707)	(1,289,582)
Rents and royalties	3,344,264	2,508,200	5,852,464
Other	3,297,640	(5,568)	3,292,072
Transfers (Note 9A)	2,116,581	(2,116,581)	-
Total General Revenues and Transfers	127,123,199	18,659,008	145,782,207
Change in Net Assets	(1,430,306)	26,334,566	24,904,260
Net Assets-Beginning	691,936,795	836,717,941	1,528,654,736
Net Assets-Ending	<u>\$ 690,506,489</u>	<u>\$ 863,052,507</u>	<u>\$ 1,553,558,996</u>

FUND FINANCIAL STATEMENTS
---------------------------

The funds described below were determined to be Major Funds by the City in fiscal year 2004-05. Individual non-major funds may be found in the Supplemental section.

MAJOR GOVERNMENTAL FUNDS
--------------------------

#### GENERAL FUND

The General Fund is used for all the general revenues of the City not specifically levied or collected for other City funds, and the related expenditures.

#### REDEVELOPMENT AGENCY FUND

The Redevelopment Agency Fund accounts for the construction or acquisition of public improvements of the Agency; housing set aside funds received from Agency tax increment for the purpose of developing low to moderate income housing; and for monies for the payment of Agency long-term obligations which are financed by tax increment and lease revenues.

**CITY OF SANTA CLARA  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2005**

	General	Redevelopment Agency	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and investments (Note 8):				
Pooled cash and investments	\$ 63,628,658	\$ 77,243,650	\$ 69,095,151	\$ 209,967,459
Investments with fiscal agent - current	-	937,935	498	938,433
Cash designated for construction	-	91,978,856	4,282,600	96,261,456
Receivables (net of allowance for uncollectibles):				
Accounts	2,262,730	855,782	54,092	3,172,604
Interest	2,889,295	981,476	69,750	3,940,521
Loans	-	43,957,707	10,694,188	54,651,895
Special assessments	-	-	5,875,000	5,875,000
Intergovernmental	4,198,310	-	2,812,621	7,010,931
Due from other funds (Note 9B)	1,249,665	-	9,884	1,259,549
Materials, supplies and prepaids	21,157	-	-	21,157
Land held for redevelopment (Note 2H)	-	5,400,270	-	5,400,270
Investments with fiscal agent - noncurrent (Note 8)	-	9,580,348	6,446,484	16,026,832
Advances to other funds (Note 9C)	14,555,239	-	-	14,555,239
Other	20,608	303,250	-	323,858
<b>Total Assets</b>	<b>\$ 88,825,662</b>	<b>\$ 231,239,274</b>	<b>\$ 99,340,268</b>	<b>\$ 419,405,204</b>
<b>LIABILITIES</b>				
Accrued liabilities	\$ 9,586,461	\$ 1,011,585	\$ 4,229,446	\$ 14,827,492
Interest payable	-	904,716	-	904,716
Accrued compensated absences	-	-	-	-
Due to other funds (Note 9)	-	-	1,279,386	1,279,386
Deferred revenue	390,642	44,260,957	18,855,093	63,506,692
Advances from other funds (Note 9C)	-	9,431,325	-	9,431,325
<b>Total Liabilities</b>	<b>9,977,103</b>	<b>55,608,583</b>	<b>24,363,925</b>	<b>89,949,611</b>
<b>FUND BALANCES</b>				
Reserved for encumbrances	741,654	4,225,730	13,923,807	18,891,191
Reserved for debt service	-	9,414,680	10,549,763	19,964,443
Reserved for low and moderate income housing	-	36,847,871	-	36,847,871
Reserved for inventory, petty cash and receivables	969,056	-	-	969,056
Reserved for advances	14,555,239	-	-	14,555,239
Reserved for land held for redevelopment	-	5,400,270	-	5,400,270
Unreserved				
Designated for working capital	13,828,004	-	-	13,828,004
Designated for capital projects				
Reported in:				
General Fund	20,865,654	-	-	20,865,654
Special Revenue Funds	-	-	9,438,139	9,438,139
Capital Projects Funds	-	119,742,140	35,017,319	154,759,459
Designated for investment of land sale proceeds	14,662,405	-	-	14,662,405
Designated for downtown revitalization	885,952	-	-	885,952
Designated for building inspection and other	4,760,138	-	-	4,760,138
Undesignated:				
Reported in:				
General Fund	7,580,457	-	-	7,580,457
Special Revenue Funds	-	-	2,045,189	2,045,189
Permanent Funds	-	-	4,002,126	4,002,126
<b>Total Fund Balances</b>	<b>78,848,559</b>	<b>175,630,691</b>	<b>74,976,343</b>	<b>329,455,593</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 88,825,662</b>	<b>\$ 231,239,274</b>	<b>\$ 99,340,268</b>	<b>\$ 419,405,204</b>

See accompanying notes to financial statements

**CITY OF SANTA CLARA**  
**Reconciliation of Fund Balances to Governmental Activities Net Assets**  
**JUNE 30, 2005**

Governmental fund balance from prior page	\$ 329,455,593
---	----------------

Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following:

**CAPITAL ASSETS**

Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	533,015,172
--	-------------

**ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS**

Internal Service Funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance, to individual governmental funds. The net current assets of the Internal Service Funds are therefore included in Governmental Activities in the following line items in the Statement of Net Assets.

Cash and investments	12,135,265
Cash and investments with fiscal agent	19,922,276
Accounts receivable	379,445
Interest receivable	10,294
Materials, supplies and prepaids	310,374
Accounts payable	(9,875,066)
Compensated absences	(137,587)
Internal balances	(3,420,720)

**ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES**

Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities.	60,526,895
--	------------

**LONG TERM LIABILITIES**

The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:

Reserve against conditional grant balances	(3,041,256)
Long-term debt	(235,362,728)
Interest payable	(2,766,212)
Non-current portion of compensated absences	(10,645,256)

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 690,506,489</u></u>
---------------------------------------	------------------------------

See accompanying notes to financial statements

**CITY OF SANTA CLARA  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2005**

	General	Redevelopment Agency	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes:				
Sales	\$ 35,695,669	\$ -	\$ -	\$ 35,695,669
Ad valorem	20,068,398	19,859,456	-	39,927,854
Transient occupancy	7,863,075	-	-	7,863,075
Other	3,842,356	-	1,162,753	5,005,109
Licenses, permits, fines, and penalties	5,229,337	-	-	5,229,337
Intergovernmental	3,619,641	-	5,124,004	8,743,645
Charges for services	13,233,382	-	2,096,141	15,329,523
Contributions in-lieu of taxes	11,992,617	-	-	11,992,617
Interest and rents	9,555,863	19,593,835	1,243,876	30,393,574
Net increase (decrease) in the fair value of investments	(380,516)	(103,359)	-	(483,875)
Other	28,429	3,056,594	1,124,391	4,209,414
<b>Total Revenues</b>	<b>110,748,251</b>	<b>42,406,526</b>	<b>10,751,165</b>	<b>163,905,942</b>
<b>EXPENDITURES</b>				
Current:				
General Administration	12,300,372	9,728,922	7,602,156	29,631,450
City Clerk	675,924	-	-	675,924
City Attorney	1,071,330	-	-	1,071,330
Human Resources	1,722,447	-	-	1,722,447
Finance	6,034,305	-	-	6,034,305
Public Works	13,456,615	-	2,310,368	15,766,983
Parks and Recreation	10,244,863	-	3,772	10,248,635
Public Safety:				
Police	30,403,437	-	372,365	30,775,802
Fire	27,630,844	-	315,760	27,946,604
Communication	3,846,666	-	-	3,846,666
Planning & Inspection	5,343,849	-	-	5,343,849
Library	6,646,767	-	243,991	6,890,758
Capital outlay	73,937	9,742,777	9,425,436	19,242,150
Debt service (Note 11)				
Principal payments	-	9,276,286	4,075,000	13,351,286
Interest and fiscal fees	-	9,554,634	3,429,774	12,984,408
<b>Total Expenditures</b>	<b>119,451,356</b>	<b>38,302,619</b>	<b>27,778,622</b>	<b>185,532,597</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(8,703,105)</b>	<b>4,103,907</b>	<b>(17,027,457)</b>	<b>(21,626,655)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	407,784	-	-	407,784
Transfers in (Note 9A)	13,472,078	156,848	15,099,235	28,728,161
Transfers (out) (Note 9A)	(16,077,727)	(4,419,936)	(7,601,537)	(28,099,200)
<b>Total Other Financing Sources (Uses)</b>	<b>(2,197,865)</b>	<b>(4,263,088)</b>	<b>7,497,698</b>	<b>1,036,745</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(10,900,970)</b>	<b>(159,181)</b>	<b>(9,529,759)</b>	<b>(20,589,910)</b>
Fund balances at beginning of period, as restated (Note 2K)	89,749,529	175,789,872	84,506,102	350,045,503
<b>FUND BALANCES AT END OF PERIOD</b>	<b>\$ 78,848,559</b>	<b>\$175,630,691</b>	<b>\$ 74,976,343</b>	<b>\$ 329,455,593</b>

See accompanying notes to financial statements

**CITY OF SANTA CLARA**  
**Reconciliation of the**  
**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS**  
**with the**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2005**

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (20,589,910)
--	-----------------

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

**CAPITAL ASSET TRANSACTIONS**

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

The capital outlay expenditures are therefore added back to fund balance	19,194,637
--	------------

Depreciation expense is deducted from the fund balance

(Depreciation expense is net of internal service fund depreciation of \$1,402,455 which has already been allocated to serviced funds.)

	(16,531,719)
--	--------------

Retirements and transfers of capital assets (net of internal service fund retirements of \$65,449)

	(1,620,890)
--	-------------

Contributions of infrastructure and improvements by developers are capitalized in the Statement of Activities, but are not recorded in the Fund Statements because no cash changed hands.

	2,432,568
--	-----------

**LONG TERM DEBT PROCEEDS AND PAYMENTS**

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Repayment of debt principal is added back to fund balance	13,351,286
---	------------

**ACCRUAL OF NON-CURRENT ITEMS**

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Provision for reserve of conditional grants	(1,565,760)
---	-------------

Non-current portion of compensated absences	(157,309)
---	-----------

Interest payable	426,760
------------------	---------

Deferred revenue	4,539,250
------------------	-----------

**ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY**

Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds.

The portion of the net revenue (expense) of these Internal Service Funds, arising out of their transactions with Governmental Funds, is reported with governmental activities, because they service those activities.

Change in Net Assets - All Internal Service Funds, net	(543,139)
--	-----------

Change in Net Assets of Internal Service Funds reported with Business-Type Activities	(366,080)
---	-----------

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (1,430,306)</u>
---	-----------------------

See accompanying notes to financial statements

MAJOR PROPRIETARY FUNDS
-------------------------

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

The City has identified the funds below as major proprietary funds in fiscal year 2004-05.

GASB 34 does not provide for the disclosure of budget vs. actual comparisons regarding proprietary funds that are major funds.

#### ELECTRIC UTILITY FUND

This fund accounts for the operation of the City's electric utility, a self-supporting activity that provides services on a user charge basis to residences and businesses.

#### WATER UTILITY FUND

This fund accounts for the operation of the City's water utility, a self-supporting activity that provides services on a user charge basis to residences and businesses.

#### SEWER UTILITY FUND

The Sewer Utility Fund accounts for the maintenance of the City's sewer lines and related facilities. It is a self-supporting activity that provides services on a user charge basis to residences and businesses.

#### WATER RECYCLING UTILITY FUND

This fund accounts for the ongoing maintenance and operations of the City's waste water reclamation system. It is a self-supporting activity that provides services on a user charge basis from the sale of non-potable water for irrigation and landscaping.

#### SOLID WASTE FUND

This fund accounts for the administration of the City's garbage and rubbish collection service.

#### CEMETERY FUND

This fund accounts for the activities of the Mission City Memorial Park.

#### SPORTS AND OPEN SPACE AUTHORITY FUND (SOSA)

SOSA was created by the City Council in 1974 for the acquisition and development of open space within the City and the development of local sports activities.

#### SANTA CLARA GOLF AND TENNIS CLUB FUND (SCG&TC)

The SCG&TC was established in 1984 to account for the operations of the City's Public Golf Course.

#### SANTA CLARA CONVENTION CENTER FUND

The Santa Clara Convention Center was established in 1984 to account for the operations of the City's Convention Center.

**CITY OF SANTA CLARA  
PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2005**

	<b>Business-type Activities-Enterprise Funds</b>				
	<b>UTILITY FUNDS</b>				
	<b>Electric Utility</b>	<b>Water Utility</b>	<b>Sewer Utility</b>	<b>Water Recycling Utility</b>	<b>Solid Waste</b>
<b>ASSETS</b>					
Current assets:					
Cash and investments (Note 8):					
Pooled cash and investments	\$ 423,151,461	\$ 10,192,835	\$ 16,156,524	\$ 4,035,494	\$ 586,944
Investments with fiscal agent	12,822,967	-	-	-	-
Receivables (net of allowance for uncollectibles):					
Accounts	36,478,735	1,847,181	1,031,871	16,806	1,307,495
Interest	5,283,224	133,204	246,490	47,069	-
Due from other funds (Note 9B)	2,611,446	342,638	599,268	-	915,111
Materials, supplies and prepaids	4,282,849	1,119,270	-	-	-
<b>Total Current Assets</b>	<b>484,630,682</b>	<b>13,635,128</b>	<b>18,034,153</b>	<b>4,099,369</b>	<b>2,809,550</b>
Noncurrent assets:					
Cash designated for construction (Note 8)	8,694,017	303,090	1,507,553	-	510,000
Investment with fiscal agent (Note 8)	14,207,662	-	-	-	-
Deposits (Note 8)	12,999,159	-	-	-	-
Capital assets (Note 10):					
Land and improvements	10,443,186	661,268	725,328	-	-
Buildings and improvements	658,193,581	54,616,794	23,933,139	-	127,362
Equipment	6,728,116	3,507,449	1,398,424	-	440,599
Construction in progress	3,046,515	503,036	-	-	-
Accumulated depreciation	678,411,398	59,288,547	26,056,891	-	567,961
	203,868,886	31,828,076	15,605,306	-	394,905
	474,542,512	27,460,471	10,451,585	-	173,056
Investment in joint ventures (Note 13)	12,946,399	-	88,475,724	-	-
Other Assets	11,927,234	-	321,945	-	334,265
<b>Total Noncurrent Assets</b>	<b>535,316,983</b>	<b>27,763,561</b>	<b>100,756,807</b>	<b>-</b>	<b>1,017,321</b>
<b>TOTAL ASSETS</b>	<b>1,019,947,665</b>	<b>41,398,689</b>	<b>118,790,960</b>	<b>4,099,369</b>	<b>3,826,871</b>
<b>LIABILITIES</b>					
Current liabilities:					
Accrued liabilities	65,580,024	1,630,572	209,046	1,216,129	963,443
Interest payable	4,483,767	-	-	-	-
Accrued compensated absences	1,949,361	700,656	232,170	-	44,146
Due to other funds (Note 9B)	-	-	-	-	-
Unearned revenue	-	-	-	-	-
Current portion of landfill closure liability (Note 12)	-	-	-	-	170,000
Current portion of long-term debt (Note 11)	11,080,000	-	-	64,722	-
<b>Total Current Liabilities</b>	<b>83,093,152</b>	<b>2,331,228</b>	<b>441,216</b>	<b>1,280,851</b>	<b>1,177,589</b>
Noncurrent liabilities:					
Advance from other funds (Note 9C)	-	-	-	-	-
Landfill closure liability (Note 12)	-	-	-	-	5,484,789
Long-term obligations (Note 11)	264,042,945	-	-	172,669	-
<b>Total noncurrent liabilities</b>	<b>264,042,945</b>	<b>-</b>	<b>-</b>	<b>172,669</b>	<b>5,484,789</b>
<b>TOTAL LIABILITIES</b>	<b>347,136,097</b>	<b>2,331,228</b>	<b>441,216</b>	<b>1,453,520</b>	<b>6,662,378</b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	235,144,213	27,460,471	10,451,585	-	3,056
Restricted for contractual obligations	2,641,068	578,216	5,590	507,302	15
Unrestricted	435,026,287	11,028,774	107,892,569	2,138,547	(2,838,578)
<b>NET ASSETS</b>	<b>\$ 672,811,568</b>	<b>\$ 39,067,461</b>	<b>\$ 118,349,744</b>	<b>\$ 2,645,849</b>	<b>\$ (2,835,507)</b>

Some amounts reported for *business-type activities* in the Statement of Net Assets are different because certain Internal Service Fund assets and liabilities are included with business-type activities.

**NET ASSETS OF BUSINESS-TYPE ACTIVITIES**

See accompanying notes to financial statements

**CITY OF SANTA CLARA  
PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2005**

	<u>Cemetery</u>	<u>Sports and Open Space Authority</u>	<u>Santa Clara Golf and Tennis Club</u>	<u>Santa Clara Convention Center</u>	<u>TOTAL</u>	<u>Governmental Activities- Internal Service Funds</u>
<b>ASSETS</b>						
Current assets:						
Cash and investments (Note 8):						
Pooled cash and investments	\$ -	\$ 180,560	\$ 265,901	\$ 1,305,385	\$ 455,875,104	\$ 11,463,563
Investments with fiscal agent	-	-	-	-	12,822,967	19,922,276
Receivables (net of allowance for uncollectibles):						
Accounts	-	-	-	308,603	40,990,691	379,445
Interest	-	-	-	-	5,709,987	10,294
Due from other funds (Note 9B)	134,368	-	-	-	4,602,831	175,089
Materials, supplies and prepaids	-	-	67,747	-	5,469,866	310,374
<b>Total Current Assets</b>	<b>134,368</b>	<b>180,560</b>	<b>333,648</b>	<b>1,613,988</b>	<b>525,471,446</b>	<b>32,261,041</b>
Noncurrent assets:						
Cash designated for construction (Note 8)	-	-	196,364	-	11,211,024	-
Investment with fiscal agent (Note 8)	-	-	-	-	14,207,662	-
Deposits (Note 8)	-	-	-	-	12,999,159	-
Capital assets (Note 10):						
Land and improvements	1,114,782	3,883,046	-	-	16,827,610	-
Buildings and improvements	1,124,994	-	23,491,302	46,471,810	807,958,982	-
Equipment	243,378	-	872,012	1,662,778	14,852,756	19,815,802
Construction in progress	-	-	33,255	-	3,582,806	-
	2,483,154	3,883,046	24,396,569	48,134,588	843,222,154	19,815,802
Accumulated depreciation	944,153	-	12,628,498	26,617,208	291,887,032	14,649,983
	1,539,001	3,883,046	11,768,071	21,517,380	551,335,122	5,165,819
Investment in joint ventures (Note 13)	-	-	-	-	101,422,123	-
Other Assets	-	-	-	-	12,583,444	-
<b>Total Noncurrent Assets</b>	<b>1,539,001</b>	<b>3,883,046</b>	<b>11,964,435</b>	<b>21,517,380</b>	<b>703,758,534</b>	<b>5,165,819</b>
<b>TOTAL ASSETS</b>	<b>1,673,369</b>	<b>4,063,606</b>	<b>12,298,083</b>	<b>23,131,368</b>	<b>1,229,229,980</b>	<b>37,426,860</b>
<b>LIABILITIES</b>						
Current liabilities:						
Accrued liabilities	23,907	150	504,217	167,051	70,294,539	9,875,066
Interest payable	-	-	-	-	4,483,767	-
Accrued compensated absences	49,804	-	-	-	2,976,137	137,587
Due to other funds (Note 9B)	165,352	-	-	996,922	1,162,274	3,595,809
Unearned revenue	-	-	-	450,015	450,015	-
Current portion of landfill closure liability (Note 12)	-	-	-	-	170,000	-
Current portion of long-term debt (Note 11)	-	-	-	-	11,144,722	-
<b>Total Current Liabilities</b>	<b>239,063</b>	<b>150</b>	<b>504,217</b>	<b>1,613,988</b>	<b>90,681,454</b>	<b>13,608,462</b>
Noncurrent liabilities:						
Advance from other funds (Note 9C)	1,349,780	-	3,774,134	-	5,123,914	-
Landfill closure liability (Note 12)	-	-	-	-	5,484,789	-
Long-term obligations (Note 11)	-	-	-	-	264,215,614	20,000,000
<b>Total noncurrent liabilities</b>	<b>1,349,780</b>	<b>-</b>	<b>3,774,134</b>	<b>-</b>	<b>274,824,317</b>	<b>20,000,000</b>
<b>TOTAL LIABILITIES</b>	<b>1,588,843</b>	<b>150</b>	<b>4,278,351</b>	<b>1,613,988</b>	<b>365,505,771</b>	<b>33,608,462</b>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	1,539,001	3,883,046	11,768,071	21,517,380	311,766,823	5,165,819
Restricted for contractual obligations	-	9,426	-	-	3,741,617	448,724
Unrestricted	(1,454,475)	170,984	(3,748,339)	-	548,215,769	(1,796,145)
<b>NET ASSETS</b>	<b>\$ 84,526</b>	<b>\$ 4,063,456</b>	<b>\$ 8,019,732</b>	<b>\$ 21,517,380</b>	<b>863,724,209</b>	<b>\$ 3,818,398</b>

Some amounts reported for *business-type activities* in  
because certain Internal Service Fund assets and liab

(671,702)

NET ASSETS OF BUSINESS-TYPE ACTIVITI

\$ 863,052,507

See 2

**CITY OF SANTA CLARA  
PROPRIETARY FUNDS  
STATEMENT OF REVENUE, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2005**

**Business-type Activities-Enterprise Funds**

	UTILITY FUNDS					
	Electric Utility	Water Utility	Sewer Utility	Water Recycling Utility	Solid Waste	Cemetery
Operating revenues:						
Charges for services	\$ 183,135,868	\$ 18,125,709	\$ 11,131,597	\$ 858,742	\$ 14,401,971	\$ 525,605
Rents and royalties	-	-	-	-	-	-
Insurance refunds and other	-	-	-	-	-	-
Other	-	-	-	-	2,733	-
Total Operating Revenues	<u>183,135,868</u>	<u>18,125,709</u>	<u>11,131,597</u>	<u>858,742</u>	<u>14,404,704</u>	<u>525,605</u>
Operating expenses:						
Salaries and benefits	15,674,562	3,753,720	1,606,449	133,208	727,712	536,819
Materials, services and supplies	162,842,924	13,978,150	8,943,030	488,741	13,546,460	194,568
General and administrative	-	-	-	-	-	-
Amortization	1,019,339	70,026	45,872	-	47,881	-
Depreciation	13,392,798	954,191	458,639	-	23,918	37,883
Total Operating Expenses	<u>192,929,623</u>	<u>18,756,087</u>	<u>11,053,990</u>	<u>621,949</u>	<u>14,345,971</u>	<u>769,270</u>
Operating Income (Loss)	<u>(9,793,755)</u>	<u>(630,378)</u>	<u>77,607</u>	<u>236,793</u>	<u>58,733</u>	<u>(243,665)</u>
Nonoperating revenues (expenses):						
Interest revenue	17,572,525	449,652	821,697	157,839	-	(3,778)
Net increase (decrease) in the fair value of investments	(753,302)	(15,648)	(36,757)	-	-	-
Rents and royalties	2,373,770	68,997	-	-	65,433	-
Joint project contribution	-	-	-	309,572	-	-
Other revenue	10,356,107	758,796	933,594	(7,083)	-	-
Interest expense	(7,671,593)	-	-	(12,023)	-	-
Other expense	(3,799,709)	-	-	(219,402)	-	-
Reduction of provision for disputed SCS charges (Note 18)	13,097,923	-	-	-	-	-
Equity in income (losses) of joint ventures	(2,770,203)	-	2,007,578	-	-	-
Gain (loss) on retirement of assets	(3,421)	(189)	(148)	-	-	(288)
Wholesale resources sales	170,165,379	-	-	-	-	-
Wholesale resources purchases	(165,790,104)	-	-	-	-	-
Total Nonoperating Revenues (Expenses)	<u>32,777,372</u>	<u>1,261,608</u>	<u>3,725,964</u>	<u>228,903</u>	<u>65,433</u>	<u>(4,066)</u>
Income (Loss) Before Contributions and Transfers	<u>22,983,617</u>	<u>631,230</u>	<u>3,803,571</u>	<u>465,696</u>	<u>124,166</u>	<u>(247,731)</u>
Contributions	-	-	-	-	-	-
Transfers in (Note 9A)	-	580,000	-	-	582,669	39,364
Transfers (out) (Note 9A)	<u>(1,058,826)</u>	<u>(94,377)</u>	<u>(47,111)</u>	<u>(591,304)</u>	<u>(2,731)</u>	<u>(9,733)</u>
Change in Net Assets	<u>21,924,791</u>	<u>1,116,853</u>	<u>3,756,460</u>	<u>(125,608)</u>	<u>704,104</u>	<u>(218,100)</u>
Total Net Assets-Beginning	<u>650,886,777</u>	<u>37,950,608</u>	<u>114,593,284</u>	<u>2,771,457</u>	<u>(3,539,611)</u>	<u>302,626</u>
Total Net Assets-Ending	<u>\$ 672,811,568</u>	<u>\$ 39,067,461</u>	<u>\$118,349,744</u>	<u>\$ 2,645,849</u>	<u>\$ (2,835,507)</u>	<u>\$ 84,526</u>

Some amounts reported for *business-type activities* in the Statement of Activities are different because the portion of the net income of certain Internal Service Funds is reported with the business-type activities which those funds service.

Change in Net Assets of Business-type Activities

See accompanying notes to financial statements

**CITY OF SANTA CLARA  
PROPRIETARY FUNDS  
STATEMENT OF REVENUE, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2005**

	<b>Business-type Activities-Enterprise Funds</b>				
	<b>Sports and Open Space Authority</b>	<b>Santa Clara Golf and Tennis Club</b>	<b>Santa Clara Convention Center</b>	<b>TOTAL</b>	<b>Governmental Activities- Internal Service Funds</b>
Operating revenues:					
Charges for services	\$ -	\$ 2,791,329	\$ 3,477,697	\$ 234,448,518	\$ 7,077,818
Rents and royalties	1,316,814	-	-	1,316,814	-
Insurance refunds and other	-	-	-	-	316,716
Other	-	121,779	-	124,512	-
<b>Total Operating Revenues</b>	<b>1,316,814</b>	<b>2,913,108</b>	<b>3,477,697</b>	<b>235,889,844</b>	<b>7,394,534</b>
Operating expenses:					
Salaries and benefits	8,580	834,445	3,280,219	26,555,714	2,037,059
Materials, services and supplies	17,486	887,566	1,082,420	201,981,345	1,663,713
General and administrative	-	-	-	-	4,918,760
Amortization	-	-	-	1,183,118	-
Depreciation	-	806,225	1,618,340	17,291,994	1,402,455
<b>Total Operating Expenses</b>	<b>26,066</b>	<b>2,528,236</b>	<b>5,980,979</b>	<b>247,012,171</b>	<b>10,021,987</b>
<b>Operating Income (Loss)</b>	<b>1,290,748</b>	<b>384,872</b>	<b>(2,503,282)</b>	<b>(11,122,327)</b>	<b>(2,627,453)</b>
Nonoperating revenues (expenses):					
Interest revenue	18,005	-	62,724	19,078,664	520,229
Net increase (decrease) in the fair value of investments	-	-	-	(805,707)	-
Rents and royalties	-	-	-	2,508,200	-
Joint project contribution	-	-	-	309,572	-
Other revenue	-	-	-	12,041,414	189,380
Interest expense	-	-	-	(7,683,616)	(719,169)
Other expense	-	-	-	(4,019,111)	-
Reduction of provision for disputed SCS charges (Note 1)	-	-	-	13,097,923	-
Equity in income (losses) of joint ventures	-	-	-	(762,625)	-
Gain (loss) on retirement of assets	-	(1,522)	-	(5,568)	(65,448)
Wholesale resources sales	-	-	-	170,165,379	-
Wholesale resources purchases	-	-	-	(165,790,104)	-
<b>Total Nonoperating Revenues (Expenses)</b>	<b>18,005</b>	<b>(1,522)</b>	<b>62,724</b>	<b>38,134,421</b>	<b>(75,008)</b>
<b>Income (Loss) Before Contributions and Transfers</b>	<b>1,308,753</b>	<b>383,350</b>	<b>(2,440,558)</b>	<b>27,012,094</b>	<b>(2,702,461)</b>
Contributions	-	-	1,744,675	1,744,675	-
Transfers in (Note 9A)	1,110,936	-	913,218	3,226,187	1,849,085
Transfers (out) (Note 9A)	(2,427,750)	(1,110,936)	-	(5,342,768)	(361,465)
<b>Change in Net Assets</b>	<b>(8,061)</b>	<b>(727,586)</b>	<b>217,335</b>	<b>26,640,188</b>	<b>(1,214,841)</b>
<b>Total Net Assets-Beginning</b>	<b>4,071,517</b>	<b>8,747,318</b>	<b>21,300,045</b>	<b>-</b>	<b>5,033,239</b>
<b>Total Net Assets-Ending</b>	<b>\$ 4,063,456</b>	<b>\$ 8,019,732</b>	<b>\$ 21,517,380</b>	<b>-</b>	<b>\$ 3,818,398</b>
Some amounts reported for <i>business-type activities</i> of the net income of certain Internal Service Funds is:				(305,622)	
Change in Net Assets of Business-type Activities				\$ 26,334,566	

**CITY OF SANTA CLARA  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2005**

	<b>Business-type Activities-Enterprise Funds</b>				
	<b>UTILITY FUNDS</b>				
	<b>Electric Utility</b>	<b>Water Utility</b>	<b>Sewer Utility</b>	<b>Water Recycling Utility</b>	<b>Solid Waste</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 183,683,825	\$ 17,937,382	\$ 11,033,332	\$ 877,819	\$14,323,263
Payments to suppliers	(163,818,062)	(13,929,910)	(8,811,300)	(418,017)	(13,963,692)
Payments to employees	(15,367,706)	(3,806,781)	(1,607,157)	(133,208)	(719,517)
Internal activity - payments to other funds	-	-	-	-	-
Claims paid	-	-	-	-	-
Other receipts (payments)	6,832,173	758,796	933,594	(231,425)	2,733
Net Cash Provided by Operating Activities	11,330,230	959,487	1,548,469	95,169	(357,213)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Wholesale resources sales	170,165,379	-	-	-	-
Wholesale resources purchases	(165,790,104)	-	-	-	-
Provision for disputed SCS charges	(8,661,518)	-	-	-	-
Charges for joint project contribution	-	-	(5,792,350)	309,572	-
Expenses for joint project	-	-	-	(7,083)	-
Increase (decrease) in due from other funds	1,206,269	206,155	93,995	5,000	37,840
(Increase) decrease in due to other funds	-	-	-	-	-
Advances from other funds	-	-	-	-	-
Transfers in	-	580,000	-	-	582,669
Transfers (out)	(1,058,826)	(94,377)	(47,111)	(591,304)	(2,731)
Cash Flows from Noncapital Financing Activities	(4,138,800)	691,778	(5,745,466)	(283,815)	617,778
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Acquisition and construction of capital assets, net	(95,563,396)	(2,161,378)	(104,538)	-	-
Acquisition and construction of other assets, net	(1,393,665)	(70,026)	(69,837)	-	(71,708)
Principal payments on capital debt	(5,840,000)	-	-	(62,225)	(245,206)
Interest paid on capital debt	(6,945,413)	-	-	-	-
Cash Flows from Capital and Related Financing Activities	(109,742,474)	(2,231,404)	(174,375)	(62,225)	(316,914)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Rents and royalties received	2,247,325	68,997	-	-	65,433
Net increase (decrease) in the fair value of investments	(753,302)	(15,648)	(36,757)	-	-
Interest and dividends	18,277,970	471,521	872,536	166,618	-
Payments made by fiscal agent	16,370,071	-	-	-	-
Deposits made with fiscal agent	(21,263,286)	-	-	-	-
Cash Flows from Investing Activities	14,878,778	524,870	835,779	166,618	65,433
Net increase (decrease) in cash and cash equivalents	(87,672,266)	(55,269)	(3,535,593)	(84,253)	9,084
Cash and investments at beginning of period	519,517,744	10,551,194	21,199,670	4,119,747	1,087,860
Cash and investments at end of period	\$ 431,845,478	\$ 10,495,925	\$ 17,664,077	\$ 4,035,494	\$ 1,096,944
<b>Cash and cash equivalents:</b>					
Pooled cash and investments	\$ 423,151,461	\$ 10,192,835	\$ 16,156,524	\$ 4,035,494	\$ 586,944
Cash designated for construction	8,694,017	303,090	1,507,553	-	510,000
Total Cash and cash equivalents	\$ 431,845,478	\$ 10,495,925	\$ 17,664,077	\$ 4,035,494	\$ 1,096,944
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>					
Operating income (loss)	\$ (9,793,755)	\$ (630,378)	\$ 77,607	\$ 236,793	\$ 58,733
Adjustments to reconcile operating income to net cash provided by operating activities:					
Amortization	1,019,339	70,026	45,872	-	47,881
Depreciation	13,392,798	954,191	458,639	-	23,918
Change in assets and liabilities:					
Receivables, net	14,550,800	(188,327)	(98,265)	27,856	(78,708)
Inventory	(382,131)	842	-	-	-
Accrued liabilities	(14,267,046)	47,398	131,730	70,724	(417,232)
Compensated absences	289,568	(53,061)	(708)	-	8,195
Unearned revenue	(35,741)	-	-	-	-
Other receipts (payments)	10,356,107	758,796	933,594	(240,204)	-
Other expenses	(3,799,709)	-	-	-	-
Net Cash Provided by Operating Activities	\$ 11,330,230	\$ 959,487	\$ 1,548,469	\$ 95,169	\$ (357,213)
<b>NONCASH TRANSACTIONS:</b>					
Contribution of capital assets	\$ -	\$ -	\$ -	\$ -	\$ -
Joint Ventures					
Nonoperating income	\$ (2,770,203)	\$ -	\$ 2,007,578	\$ -	\$ -

See accompanying notes to financial statements

**CITY OF SANTA CLARA  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2005**

	<b>Cemetery</b>	<b>Sports and Open Space Authority</b>	<b>Santa Clara Golf and Tennis Club</b>	<b>Santa Clara Convention Center</b>	<b>Totals</b>	<b>Governmental Activities- Internal Service Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from customers	\$ 525,605	\$ 1,314,638	\$ 2,791,329	\$ 3,488,092	\$ 235,975,285	\$ 6,943,326
Payments to suppliers	(193,532)	(17,486)	(945,306)	(1,242,839)	(203,340,144)	(1,611,943)
Payments to employees	(534,573)	(8,580)	(834,445)	(3,280,219)	(26,292,186)	(2,047,727)
Internal activity - payments to other funds	-	-	-	-	-	(112,784)
Claims paid	-	-	-	-	-	(3,802,430)
Other receipts (payments)	-	-	124,905	-	8,420,776	189,379
Net Cash Provided by Operating Activities	<u>(202,500)</u>	<u>1,288,572</u>	<u>1,136,483</u>	<u>(1,034,966)</u>	<u>14,763,731</u>	<u>(442,179)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Wholesale resources sales	-	-	-	-	170,165,379	-
Wholesale resources purchases	-	-	-	-	(165,790,104)	-
Provision for disputed SCS charges	-	-	-	-	(8,661,518)	-
Charges for joint project contribution	-	-	-	-	(5,482,778)	-
Expenses for joint project	-	-	-	-	(7,083)	-
Increase (decrease) in due from other funds	(16,268)	-	-	-	1,532,991	(697)
(Increase) decrease in due to other funds	(1,137,706)	-	-	(225,771)	(1,363,477)	(191,650)
Advances from other funds	1,349,780	-	100,000	-	1,449,780	-
Transfers in	39,364	1,110,936	-	913,218	3,226,187	1,849,085
Transfers (out)	(9,733)	(2,427,750)	(1,110,936)	-	(5,342,768)	(361,465)
Cash Flows from Noncapital Financing Activities	<u>225,437</u>	<u>(1,316,814)</u>	<u>(1,010,936)</u>	<u>687,447</u>	<u>(10,273,391)</u>	<u>1,295,273</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Acquisition and construction of capital assets, net	(19,160)	-	(84,773)	(28,000)	(97,961,245)	(1,529,675)
Acquisition and construction of other assets, net	-	-	-	-	(1,605,236)	-
Principal payments on capital debt	-	-	-	-	(6,147,431)	-
Interest paid on capital debt	-	-	-	-	(6,945,413)	(719,169)
Cash Flows from Capital and Related Financing Activities	<u>(19,160)</u>	<u>-</u>	<u>(84,773)</u>	<u>(28,000)</u>	<u>(112,659,325)</u>	<u>(2,248,844)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Rents and royalties received	-	-	-	-	2,381,755	-
Net increase (decrease) in the fair value of investments	-	-	-	-	(805,707)	-
Interest and dividends	(3,777)	18,005	-	62,724	19,865,597	676,610
Payments made by fiscal agent	-	-	-	-	16,370,071	-
Deposits made with fiscal agent	-	-	-	-	(21,263,286)	51,797
Cash Flows from Investing Activities	<u>(3,777)</u>	<u>18,005</u>	<u>-</u>	<u>62,724</u>	<u>16,548,430</u>	<u>728,407</u>
Net increase (decrease) in cash and cash equivalents	-	(10,237)	40,774	(312,795)	(91,620,555)	(667,343)
Cash and investments at beginning of period	-	190,797	421,491	1,618,180	558,706,683	12,130,906
Cash and investments at end of period	<u>\$ -</u>	<u>\$ 180,560</u>	<u>\$ 462,265</u>	<u>\$ 1,305,385</u>	<u>\$ 467,086,128</u>	<u>\$ 11,463,563</u>
<b>Cash and cash equivalents:</b>						
Pooled cash and investments	\$ -	\$ 180,560	\$ 265,901	\$ 1,305,385	\$ 455,875,104	\$ 11,463,563
Cash designated for construction	-	-	196,364	-	11,211,024	-
Total Cash and cash equivalents	<u>\$ -</u>	<u>\$ 180,560</u>	<u>\$ 462,265</u>	<u>\$ 1,305,385</u>	<u>\$ 467,086,128</u>	<u>\$ 11,463,563</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>						
Operating income (loss)	\$ (243,665)	\$ 1,290,748	\$ 384,872	\$ (2,503,282)	\$ (11,122,327)	\$ (2,627,453)
Adjustments to reconcile operating income to net cash provide by operating activities:						
Amortization	-	-	-	-	1,183,118	-
Depreciation	37,883	-	806,225	1,618,340	17,291,994	1,402,455
Change in assets and liabilities:						
Receivables, net	-	-	-	(99,677)	14,113,679	(134,492)
Inventory	-	-	3,126	-	(378,163)	(30,852)
Accrued liabilities	1,036	(2,176)	(57,740)	(160,419)	(14,653,725)	769,453
Compensated absences	2,246	-	-	-	246,240	(10,670)
Unearned revenue	-	-	-	110,072	74,331	-
Other receipts (payments)	-	-	-	-	11,808,293	189,380
Other expenses	-	-	-	-	(3,799,709)	-
Net Cash Provided by Operating Activities	<u>\$ (202,500)</u>	<u>\$ 1,288,572</u>	<u>\$ 1,136,483</u>	<u>\$ (1,034,966)</u>	<u>\$ 14,763,731</u>	<u>\$ (442,179)</u>
<b>NONCASH TRANSACTIONS:</b>						
Contribution of capital assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,744,675</u>	<u>\$ 1,744,675</u>	<u>-</u>
Joint Ventures						
Nonoperating income	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (762,625)</u>	<u>\$ -</u>

See accomp

FIDUCIARY FUNDS
-----------------

Fiduciary Funds – Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the City-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

**CITY OF SANTA CLARA  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2005**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Pooled cash and investments (Note 8)	\$ 9,545,596
Investments with fiscal agents (Note 8)	<u>220,582</u>
Total Assets	<u><u>\$ 9,766,178</u></u>
 <b>LIABILITIES</b>	
Due to bondholders	\$ 3,054,783
Accrued liabilities	1,207,537
Refundable deposits	<u>5,503,858</u>
Total Liabilities	<u><u>\$ 9,766,178</u></u>

See accompanying notes to financial statements

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 1 - DEFINITION OF THE REPORTING ENTITY**

The City of Santa Clara (City), also known as the Mission City, is a charter city incorporated in 1852 under the laws of the State of California. The City Charter establishes the Council/Manager form of government. The City's citizens elect a City Council of seven citizens, six councilpersons and a Mayor elected at-large, who serve a term of four years each, and who, in turn, appoint a City Manager.

The City is located in the County of Santa Clara, California, approximately 45 miles southeast of San Francisco and three miles north of downtown San Jose. It is situated in the northern part of the County and occupies approximately 19.2 square miles. The City's population of 109,106 accounts for 6.2% of the total Santa Clara County population of 1.76 million.

The City provides a full range of municipal services, including police and fire, library, recreation, community services, public works, parks, sanitation, planning and community development, public improvements, electric, water and sewer services.

The accompanying basic financial statements present the financial activity of the City, which is the primary government presented, along with the financial activities of its component units, which are entities for which the City is financially accountable. Although they are separate legal entities, *blended* component units are in substance part of the City's operations and are reported as an integral part of the City's financial statements. The City's component units which are described below are all blended.

**The Redevelopment Agency of the City of Santa Clara**

The Redevelopment Agency of the City of Santa Clara (Agency) was established by the City Council in 1957 with the authority and responsibility for developing and upgrading blighted areas of the City. The members of the City Council are also members of the Agency's Board of Directors and, as such, are authorized to transact business and exercise power to plan, engineer, and implement projects of the Redevelopment Plan. The City performs all accounting and administrative functions of the Agency. The financial activities of the Agency have been reported in the accompanying basic financial statements in the Redevelopment Agency Fund. Separate financial statements have been issued for the Agency and are available at Santa Clara City Hall in the City Clerk's Office.

**City of Santa Clara Sports and Open Space Authority**

The City of Santa Clara Sports and Open Space Authority (SOSA) was created by the City Council in 1974 for the acquisition and development of open space within the City. The members of the City Council are also members of SOSA's Board of Directors and, as such, are authorized to transact business and exercise power to purchase, lease or otherwise obtain and dispose of real and personal property, to acquire, construct, maintain, repair, manage and operate real and personal property, including leasing to private operators for commercial purposes, surplus space which is not economical to use for open space planning. The City performs all accounting and administrative functions. The operations of SOSA have been included in the accompanying basic financial statements in the Enterprise Fund.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 1 - DEFINITION OF THE REPORTING ENTITY (Continued)**

**City of Santa Clara Public Facilities Financing Corporation**

The City of Santa Clara Public Facilities Financing Corporation (PFFC) was formed in 1997 for the purpose of issuing Certificates of Participation (COPs) to provide financing for the construction of the Police Administration Building. Members of the City Council are also members of the PFFC Board. Debt service on the COPs is secured by lease payments made by the City's General Fund to the PFFC for the use of the Police Administration Building site. In accordance with the lease agreement, the PFFC assigns lease payments received from the City to the trustee for payment to the certificate holders. The operations of PFFC have been included in the accompanying basic financial statements in the Debt Service Fund.

**NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

**A. Basic Financial Statements**

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

These Standards require that the financial statements described below be presented.

**Government-wide Financial Statements:** The Statement of Net Assets and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental*, *proprietary*, and *fiduciary*—are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Major Funds**

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

The City reported the following major governmental funds in the accompanying financial statements:

**General Fund** - This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Redevelopment Agency Fund** – This fund accounts for the construction or acquisition of public improvements of the Agency; housing set aside funds received from Agency tax increment for the purpose of developing low to moderate income housing; and for monies for the payment of Agency long-term obligations which are financed by tax increment and lease revenues.

The City reported the following enterprise funds as major funds in the accompanying financial statements:

**Electric Utility Fund** - This fund accounts for the operation of the City's electric utility, a self-supporting activity that provides services on a user charge basis to residences and businesses.

**Water Utility Fund** - This fund accounts for the operation of the City's water utility, a self-supporting activity that provides services on a user charge basis to residences and businesses.

**Sewer Utility Fund** – This fund accounts for the maintenance of the City's sewer lines and related facilities. It is a self-supporting activity that provides services on a user charge basis to residences and businesses.

**Water Recycling Utility Fund** - This fund accounts for the ongoing maintenance and operations of the City's waste water reclamation system. It is a self-supporting activity that provides services on a user charge basis from the sale of non-potable water for irrigation and landscaping.

**Solid Waste Fund** - This fund accounts for the administration of the city's garbage and rubbish collection service.

**Cemetery Fund** - This fund accounts for the activities of the Mission City Memorial Park.

**Sports and Open Space Authority Fund** - SOSA was created by the City Council in 1974 for the acquisition and development of open space within the City.

**Santa Clara Golf and Tennis Club Fund** - The SCG&TC was established in 1984 to account for the operations of the City's Public Golf Course.

**Santa Clara Convention Center Fund** - The Santa Clara Convention Center was established in 1984 to account for the operations of the City's Convention Center.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The City also reports the following fund types:

**Internal Service funds.** These funds account for maintenance of vehicles and communication and computer equipment; general liability and workers' compensation claims, all of which are provided to other departments on a cost-reimbursement basis.

**Fiduciary funds.** These funds account for assets held by the City in trust for community or private organizations, or as an agent for its employees or for assessment districts. The financial activities of these funds are excluded from the City-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

**C. Basis of Accounting**

The government-wide, proprietary, and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place. Agency Funds have no measurement focus.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable and available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

The City allocates certain indirect expenses incurred by the General Government activity to those activities that benefit.

The City follows Statements and interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board pronouncements.

**D. Pooled Cash and Investments**

While maintaining safety and liquidity, the City maximizes investment return by pooling its available cash for investment purposes. Unless there are specific legal or contractual requirements to do otherwise, interest earnings are apportioned among funds according to average monthly cash and investment balances. It is generally the City's intention to hold investments until maturity. City investments are stated at fair value (see Note 8).

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Cash and cash equivalents for purposes of the statement of cash flows include pooled cash and investments and cash designated for construction. Transactions with City-wide cash management pools are similar to those with external investment pools; therefore, since pooled cash and investments have the same characteristics as demand deposits in that the City's individual funds and component units may withdraw additional monies at any time without prior notice or penalty, pooled cash and investments are considered essentially demand deposit accounts.

Cash with fiscal agent is a bond reserve investment pool and is not considered cash and cash equivalents.

**E. Interfund Transactions and Balances**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. The related receivables and payables are classified as "due from other funds," and "due to other funds" in the fund financial statements. Long-term interfund receivables and payables are recorded as advances.

Transactions constituting reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Internal balances represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities, and are reported only in the government-wide financial statements.

**F. Inventory of Materials and Supplies**

Inventory of materials and supplies is accounted for using the consumption method and is stated at average cost. Inventory consists of expendable supplies held for consumption by all departments of the City. The cost is recorded as an expenditure or expense in the appropriate fund at the time individual inventory items are withdrawn for use. The General Fund inventory amount is equally offset by a fund balance reserve, which indicates that it does not constitute available expendable resources.

**G. Restricted Assets**

Restricted assets are monies or other resources, the use of which is restricted by legal or contractual requirements.

**H. Land Held for Redevelopment**

The Redevelopment Agency has purchased a parcel of land as part of its efforts to develop or redevelop blighted properties within the Redevelopment areas. Such land parcels are accounted for as investments on the balance sheet at the lower of cost or net realizable value or agreed-upon sales price if a disposition agreement has been made with a developer.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Individual parcels which have experienced a market value decline are written down to estimated current market value. No appreciation is recorded if the current market value of an individual parcel exceeds cost.

**I. Capital Assets**

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The City's policy is to capitalize all assets with costs exceeding certain minimum thresholds and with useful lives exceeding two years.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Public domain ("infrastructure") assets, which include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and traffic signals, have been capitalized and reported in the government-wide financial statements. Depreciation has been provided on all capital assets, including infrastructure. For proprietary funds, depreciation is recorded on a straight-line basis over the estimated useful lives of the assets (buildings and improvements: 20 to 55 years; equipment: 3 to 25 years) and is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets.

	Useful Lives (Years)	Capitalization Threshold
Buildings	20-55	\$20,000
Improvements	20-50	20,000
Equipment	3-25	5,000
Infrastructure	20-50	20,000

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated (if applicable) over the remaining useful lives of the related capital assets.

Capital assets and the related obligations acquired under lease/purchase agreements are capitalized and accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 13, *Accounting for Leases*.

Interest is capitalized on proprietary funds' construction in progress in accordance with SFAS No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*. Accordingly, interest capitalized is the total interest cost from the date of the borrowing net of any interest earned on temporary investments of the borrowed proceeds until the specified asset is ready for its intended use.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**J. Joint Ventures**

The City's Electric and Sewer Utility funds participate in several joint ventures. In accordance with GASB Statement No. 14 investments in these joint ventures are accounted for on the equity method (see Note 13). If the City's equity in net losses of joint ventures exceeds its investment, use of the equity method is suspended except to the extent that the City is obligated to provide further financial support or has guaranteed obligations of the joint ventures.

The City advances funds to certain of its joint ventures in the form of refundable advances, project advances and operating and maintenance advances. Refundable advances accrue interest at rates stated in the related agreements. Operating, maintenance and project advances are charged to operations when incurred.

Capitalized project costs are charged to operations in the event that a project is determined to be not economically feasible.

**K. Compensated Absences**

Amounts of vested or accumulated vacation leave and benefits that are not expected to be liquidated with expendable available financial resources are reported in the Governmental Activities portion of the government-wide financial statements only. No expenditure is reported for these amounts. Vested or accumulated vacation leave and benefits of proprietary funds are recorded as an expense and liability of those funds as the benefits accrue to employees. Vacation time is earned based on length of service in amounts ranging between 10 and 21 days per year. City employees are allowed to carry over unused vacation earned. The maximum amount of time that can be accrued varies, depending on the employee's rate of accrual, with an upper limit of 400 hours. Employees are paid for unused accruals upon termination of employment.

In accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*, a liability for sick leave and benefits is accrued using the vesting method. The vesting method provides that a governmental entity estimate its accrued sick leave liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments. Amounts of sick leave payments that are not expected to be liquidated with expendable available financial resources are reported in the Governmental Activities portion of the government-wide financial statements only. No expenditure is reported for these amounts. Estimated sick leave payments of proprietary funds are recorded as an expense and liability of those funds.

The accrual for compensated absences comprised the following at June 30, 2005:

	Governmental Activities	Business-Type Activities	Total
Beginning Balance	\$ 10,636,204	\$ 2,729,897	\$ 13,366,101
Additions	7,359,447	2,486,654	9,846,101
Payments	<u>(7,212,808)</u>	<u>(2,240,414)</u>	<u>(9,453,222)</u>
Ending Balance	\$ <u>10,782,843</u>	\$ <u>2,976,137</u>	\$ <u>13,758,980</u>
Current Portions	\$ <u>1,579,487</u>	\$ <u>2,976,137</u>	\$ <u>4,555,624</u>

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund.

During fiscal year 2004-05, the City implemented GASB Interpretation No. 6 and the balance of compensated absences previously reported in the General Fund is now reported in the City-Wide Statement of Net Assets. As a result, the General Fund's fund balance has been restated in the amount of \$7,417,561.

**L. Risk Management**

To provide minimum liability protection, the City has \$20,000,000 of Insurance Funding Bonds outstanding. The self-insurance bonds are an effective alternative to liability insurance protection, adaptable to the City's insurance needs (see Note 11C). The City is self-insured up to \$20,000,000 for all general liability claims through the Insurance Funding Bonds and up to \$500,000 per claim for workers' compensation. These self-insurance programs are administered by outside agencies.

The City maintains excess worker's compensation insurance with a self-insured retention of \$500,000, and commercial insurance for workers' compensation claims over \$500,000 per claim with coverage up to \$100,000,000.

Additionally, the City maintains property damage coverage through the Public Entity Property Insurance Program (PEPIP), which has a plan limit of \$750,000,000. The City also maintains boiler and machinery property coverage of \$100,000,000 per occurrence in excess of self-insured amounts varying from \$2,500 to \$500,000 per occurrence. There were no reductions in the City's insurance coverage from last year. Also, no claims settlement in the past three fiscal years exceeded the City's insurance coverage.

Each year during the budgetary process, the City estimates the amount of liability claims to be paid in the ensuing year and appropriates that amount to the respective Internal Service Fund. As claims are paid during the year they are charged to the respective Internal Service Fund. At the end of each fiscal year, the liability claims administrators determine the liabilities for claims in cases where such amounts are reasonably probable and measurable. Such liabilities are recorded and expensed in the Special Liability Insurance Claims and the Workers' Compensation Insurance Claims Internal Service Funds (see Note 20). Charges to the governmental and proprietary funds are based on the above estimates to accumulate monies in the Internal Service Funds for the payment of self-insured claims including claims incurred but not reported and operating expenses as well as premiums for insurance coverage in excess of self-insured claims.

**M. Long-term Obligations**

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service funds for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the Governmental Activities portion of the government-wide financial statements. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**N. Accounting for Encumbrances**

The City utilizes an encumbrance system of accounting wherein encumbrances outstanding at year-end, for which the goods or services have not been received, are not reported as expenditures, but are reported as a reservation of fund balance available for subsequent year expenditures based on the encumbered appropriation authority carried over to the next fiscal year. The City Charter requires recording encumbrances as a charge against appropriations in the accounting period in which a purchase order is issued, rather than in the accounting period when goods or services are received. Under the modified accrual basis of accounting, in accordance with GAAP, expenditures are recorded when the goods or services are received. Adjustments to convert expenditures from the modified accrual basis to the budgetary basis are reflected in the schedule of revenues, expenditures, and changes in fund balances - budget and actual (non-GAAP legal basis) (see Note 3 and Required Supplementary Information).

**O. Contributed Assets**

Some capital assets may be acquired using federal and State grant funds, or they may be contributed by developers or other governments. These contributions are accounted for as revenues at the time the capital assets are contributed.

**P. Net Assets and Fund Equity**

Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Reserved fund equity represents those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent the City's current plans for future use of financial resources.

**Q. Bond Discounts/Issuance Costs**

In governmental funds, bond discounts and issuance costs are recognized in the current period. Bond discounts and issuance costs for proprietary funds are deferred and amortized over the term of the bonds using a method which approximates the effective interest method. Proprietary fund bond discounts are presented as a reduction of the face amount of bonds payable whereas issuance costs are recorded as deferred charges.

**R. Property Taxes**

The State of California Constitution Article XIII A provides that the combined maximum tax rate on any given property may not exceed 1% of its assessed value except for voter approved incremental property taxes adopted prior to the passage of Article XIII A and any additional amount for general obligation debt approved by voters subsequent to the passage of Article XIII A.

Assessed value is calculated at 100% of market value as defined by Article XIII A and may be increased by no more than 2% per year unless there is a new construction on the property or the property is sold or transferred. The State Legislature has determined the method of distribution of receipts from the 1% tax levy among the counties, cities, school districts and other districts.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Santa Clara County (County) assesses properties and bills and collects property taxes on behalf of the City as follows:

	Secured	Unsecured
Valuation dates	January 1	January 1
Lien/levy dates	July 1	January 1
Due dates	50% on November 1, 50% on February 1	Upon receipt of billing
Delinquent as of	December 10 (for November), April 10 (for February)	August 31

The term "unsecured" refers to taxes on property not secured by liens on real property and generally includes business use personal property.

The City participates in the Teeter Plan offered by the County whereby cities receive 100% of secured property tax levied in exchange for foregoing any interest and penalties collected on delinquent taxes.

Property taxes levied are recorded as revenue when received from the County. Property taxes expected to be collected within 60 days of the end of the fiscal year are recorded as revenue.

The City's net assessed valuation for the year ended June 30, 2005, was \$17.97 billion, a decrease of 5.57% compared to the previous year. The average tax rate was 1.08% per \$100 of assessed valuation.

**S. Contribution In-Lieu of Taxes**

Contribution in lieu of taxes is a general revenue of the governmental funds. It is levied on receipts of the City-owned and operated utilities in accordance with the City Charter. Non-City owned and operated utilities pay a franchise fee, which is also a general governmental revenue source.

**T. Special Assessment Districts with City Commitment**

Recognition of revenue related to noncurrent receivables of special assessment district funds is deferred until such receivables become current. There is no reserve for delinquent receivables since liens exist against the related properties and hence the City's management believes the City will ultimately receive value equal to the delinquent receivables. Surplus fund balances remaining at the completion of a special assessment district project are disposed of in accordance with City Council resolutions and with the applicable assessment bond laws of the State of California.

**U. Income Taxes**

The City falls under the purview of Internal Revenue Code, Section 115 and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to federal or state income taxes.

**V. Lease Agreements**

Any operating leases with scheduled rent increases are accounted for in accordance with SFAS Statement No. 13, *Accounting for Leases*.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**W. Arbitrage Rebate Liability**

Arbitrage rebate liabilities are included in accrued liabilities.

**X. Revenue Recognition**

Electric, Water, Sewer and Solid Waste Fund revenues are recognized based on cycle billings periodically rendered to customers. Revenues for services provided, but not billed at the end of a fiscal year, are recognized and accrued based on estimated consumption.

Governmental Activities revenues susceptible to accrual include taxes, intergovernmental revenues, interest and charges for services.

**Y. Non-exchange Transactions**

The City gives or receives value without directly receiving or giving equal value in exchange, including grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

**Z. Financial Instruments**

Financial instruments included in the City's basic financial statements, excluding cash and investments, consisted of accounts receivable, accrued liabilities, and bonds payable at June 30, 2005. The carrying amounts are a reasonable estimate of fair value.

**AA. Conditional Grants**

The City has several programs under which it extends loans to qualifying individuals or groups for the purpose of improving the City's housing stock and/or its supply of low-and-moderate income housing. Certain of these loans provide for the eventual forgiveness of the loan balance if the borrower complies with all the terms of the loan over its full term. The City accounts for these loans as conditional grants in the City-wide financial statements, and provides a reserve against their eventual forgiveness using the straight-line method over the life of the respective loan.

**AB. Use of Estimates**

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 3 - BUDGETS AND BUDGETARY ACCOUNTING**

The budget of the City is a detailed operating plan that identifies estimated costs and activities in relation to estimated revenues. The budget includes: (1) the projects, services and activities to be provided during the fiscal year, (2) the estimated revenue available to finance the operating plan, and (3) the estimated spending requirements of the operating plan.

The budget process is the mechanism through which policy decisions are made, implemented and controlled. The City Charter requires that the City establish a budgetary system for general operations and prohibits expending funds for which there is no legal appropriation. The City is required to adopt a budget on or before June 30 for the ensuing fiscal year that begins July 1. Activities of the General Fund and the Maintenance Special Revenue Fund are included in the annual appropriated operating budget. The procedures followed to establish the budgetary data reflected in the accompanying basic financial statements are as follows:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. This includes a Five Year Financial Plan to aid in the planning and funding of operations and capital projects over the next five years.
2. Public hearings are conducted to obtain public comments.
3. The operating and capital budgets are legally enacted through the passage of a minute order and 5-Year Plan is approved.

From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the applicable governmental funds. The City Council may amend the budget by motion during the fiscal year. The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is at the object category level. The operating budget is presented at the object category level within programs of departments. The City Manager may transfer appropriations within the same object category of a department within the same fund without approval from the City Council. All other transfers require City Council approval, including a transfer from one object category to another object category of the same department.

Budget information is presented on a non-GAAP budgetary basis. Budgeted revenue amounts represent the original budget modified by adjustments authorized during the year. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations and transfers during the year. Budget amounts in the schedules of revenues, expenditures and changes in fund balances-budget and actual, include supplemental appropriations approved by the City Council during the year. Total expenditures of the General and the Maintenance Special Revenue Funds may not legally exceed fund appropriations.

All annual appropriations lapse at the end of the fiscal year to the extent they have not been expended or encumbered. For the actual GAAP basis financial statements, encumbered appropriations are not reported as expenditures, but are reported as a reservation of fund balance available for subsequent year expenditures, based on the encumbered appropriation authority carried over to the next fiscal year.

In addition to the annual Operating Budget, each year the City Council adopts a project length Capital Improvement Project budget.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 4 – THEME PARK, TECHMART, SANTA CLARA HOTEL AND TASMAN HOTEL GROUND LEASES**

**A. Theme Park Ground Lease**

In June 1985, the Agency acquired the Great America Theme Park (Theme Park) and entered into a management agreement with Kings Entertainment Company (Kings) to manage the Theme Park operations. The Agency also entered into a Ground Lease and Assets Option Agreement (Option Agreement) with Kings Great America, Inc. (KGA), a wholly owned subsidiary of Kings. In June 1989, the Agency sold the Theme Park operations to Kings pursuant to the Option Agreement, as amended. The sale was effective retroactive to January 1, 1989. In addition to the Theme Park buildings, rides and equipment, Kings purchased all other operating assets and assumed all operating liabilities of the Theme Park as of January 1, 1989. Concurrent with the sale of the Theme Park, the Agency as lessor, entered into a Ground Lease with First Refusal Purchase Rights (Ground Lease) with Kings pursuant to the Option Agreement, as amended, to lease the real property used in the operations of the Theme Park. The Ground Lease expires on December 31, 2009, with an option to extend for 3 additional terms of 10 years each. In the event of a termination or expiration of the Ground Lease, the Agency has an option to repurchase the assets of the Theme Park.

In August 1992, the Agency assigned the Ground Lease to Paramount Parks, Inc. (Paramount) concurrent with Paramount's purchase of the operating assets of Kings. Paramount assumed the Ground Lease with no amendments or modifications. For the duration of the Ground Lease, and for 3 years after its expiration or termination, Paramount has the right to match any bona fide offer to buy or lease all or a portion of the leased property if the leased property is sold or leased for use as a theme park. The basic rent under the Ground Lease is \$5.3 million annually, payable in quarterly installments of \$1.325 million, plus additional rent equal to the sum of 5% of the annual gross revenues of the Theme Park in excess of \$56 million up to \$100 million plus 7.5% of the annual gross revenues in excess of \$100 million. For fiscal year ended June 30, 2005, Paramount paid additional rent of \$113 thousand. All rent proceeds were applied to the debt service of the 1989 Senior Secured Refunding Notes (see Note 11). The following schedule summarizes the approximate future minimum lease revenues to be received by the Agency from the Theme Park ground lease:

<b>Fiscal Year Ending June 30</b>	<b>Minimum Lease Receipts</b>
2006	\$ 5,300,000
2007	5,300,000
2008	5,300,000
2009	5,300,000
2010	<u>2,650,000</u>
	<u>\$ 23,850,000</u>

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 4 – THEME PARK, TECHMART, SANTA CLARA HOTEL AND TASMAN HOTEL GROUND LEASES (Continued)**

**B. TECHMART Ground Lease**

In May 1998, the Agency entered into a long-term ground lease of the TECHMART parcel with CarrAmerica. The lease has a fifty-five-year term with options for two additional ten-year terms. The Agency will receive \$1 million annual rent for each of the first ten years of the lease. Annual rent increases are scheduled as follows: 10% in the eleventh year and every five years thereafter during the initial term and 15% in the first and sixth year of each option term. Under the terms of the lease, CarrAmerica assumed responsibility for all taxes and assessments levied against the TECHMART parcel and the Agency's interest in the lease is unsubordinated. The Agency is to pay all lease revenues received from the lease of the TECHMART parcel to the City's General Fund.

The following schedule summarizes the future lease payments to be received by the Agency from the TECHMART lease agreement with CarrAmerica:

<b>Fiscal Year Ending June 30</b>	<b>Amount</b>
2006	\$ 1,000,000
2007	1,000,000
2008	1,000,000
2009	1,100,000
2010	1,100,000
Thereafter	<u>72,403,787</u>
	<u>\$ 77,603,787</u>

**C. Santa Clara Hotel Ground Lease**

In July 1999, the Agency entered into a long-term ground lease with Santa Clara Hotel, LLC (Lessee) for the development of a certain portion of that piece of land – the North Parcel, and eventual operation of a high quality hotel and related facilities, amenities and improvements. The lease is for an initial term of fifty-five years. The Lessee has options to renew the lease for three additional periods of ten years. Under the terms of the lease, the Agency is entitled to receive specified amount of minimum rent subject to adjustment at times specified in the lease. Beginning with the third lease year, the Agency is also entitled to receive additional rent at a specified percentage of the gross revenues if the hotel exceeds the total amount of minimum rent for the applicable lease year. For fiscal year ended June 30, 2005, Lessee paid to the Agency \$404 thousand in minimum and percentage rents. Lessee has agreed to pay any impositions, including but not limited to taxes and assessments levied against the parcel. The Agency is to pay all lease revenues received from this lease to the City's Electric Utility Fund.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 4 – THEME PARK, TECHMART, SANTA CLARA HOTEL AND TASMAN HOTEL GROUND LEASES (Continued)**

The following schedule summarizes the approximate minimum future revenues to be received by the Agency from this lease:

<b>Fiscal Year Ending June 30</b>	<b>Amount</b>
2006	\$ 400,000
2007	400,000
2008	400,000
2009	400,000
2010	400,000
Thereafter	<u>17,633,333</u>
	<u><u>\$ 19,633,333</u></u>

**D. Tasman Hotel Ground Lease**

In January 2001, the Agency entered into a Cooperation Agreement with the City, whereby the Agency will acquire from the City a certain property (Tasman Property) located at the intersection of Tasman Drive and Centennial Boulevard. The Agency has agreed to pay consideration to the City for the site in an amount equal to all rent which the Agency will receive from the eventual lease of the site.

In April 2001, the Agency entered into a Development and Disposition Agreement (DDA) with Tasman Hotel, LLC, (Developer). The DDA provides for the lease of the Tasman Property and the construction and operation by Developer on the parcel of a high quality limited service hotel and related facilities, amenities and improvement. As of the end of the fiscal year, a lease agreement has not yet been executed on the Tasman Property and as such an estimate of future revenues is not available. This phase of the project is on hold until the economy improves.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 5 – GROUND LEASE – THE IRVINE COMPANY**

In April 2000, the Agency entered into a Cooperation Agreement (Agreement) with the City, whereby the Agency acquired from the City a 42-acre site (site) bounded by Great America Parkway, Highway 237, Lafayette Street and the City's Golf Course. The Agency has agreed to pay consideration to the City for the site in an amount equal to all rent that the Agency will receive from the eventual lease of the site. The Cooperation Agreement was amended in June 2005 to expand the sources of funds from which the Agency makes payments on the site to the City. The Agency agreed to make payments from any source of funds when and as available and not reasonably needed for other redevelopment purposes. As of the end of the fiscal year, the Agency has identified the lease payments on the ground lease of the Theme Park from Paramount Parks as additional sources for payment of the site. The amended Agreement also provided for payment of interest by the Agency at the highest rate allowable by law on the \$101 million agreed upon valuation of the site. The following schedule summarizes the approximate future payments to the City by the Agency on the Cooperation Agreement:

<u>Fiscal Year</u>	<u>Amount</u>
2006	\$7,165,900
2007	8,939,002
2008	8,939,002
2009	8,939,002
2010	8,939,002
Thereafter	<u>322,873,787</u>
Total	<u><u>\$365,795,695</u></u>

In April 2000, the Agency also entered into a Disposition and Development Agreement with Ground Lease with The Irvine Company (Developer) for development of the site as an office complex. The site was subdivided into several parcels to accommodate the phased development of the project. The Agency and Developer have identified certain improvements (conditions precedent) to be completed to prepare the site for development. The Agency and Developer have also identified responsibilities for certain costs of the conditions precedent. As of June 30, 2005, the Agency has appropriated \$14.9 million and expended close to \$10 million (for its share of these costs) for the following projects: Golf Course Fairways Relocation and Perimeter Drainage, Wetland Mitigation – Yerba Buena Parcels, Yerba Buena Owl Mitigation, Landfill Cut-off Wall, and the Yerba Buena Way Site Remediation.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 5 – GROUND LEASE – THE IRVINE COMPANY (Continued)**

Under the DDA, the Agency has leased out to the developer Parcel 2 effective February 16, 2001. Rent on Parcel 2 began 28 months and 3 days from the effective date. The term of the lease shall be at least 75 years but no more than 80 years from the effective date of the lease. The Agency will receive specified amounts of minimum rent subject to adjustment at times specified in the lease. The following schedule summarizes the approximate future lease revenues to be received by the RDA from the lease of Parcel 2:

<u>Fiscal Year</u>	<u>Amount</u>
2006	\$3,639,002
2007	3,639,002
2008	3,639,002
2009	3,639,002
2010	3,639,002
Thereafter	<u>238,809,506</u>
Total	<u><u>\$257,004,516</u></u>

**NOTE 6 – ENTERPRISE FUND MANAGEMENT AGREEMENTS**

**A. Santa Clara Convention and Visitors Bureau and Convention Center**

In March 1984, the City entered into two separate management agreements with the Santa Clara Chamber of Commerce and Convention/Visitors Bureau, Inc. (Chamber). The first agreement with the Chamber is for the management of the operations of the Santa Clara Convention/Visitors Bureau. In fiscal year ended June 30, 2005, the City paid the Chamber \$1.32 million under this contract. The second management agreement between the City and the Chamber is for the management of the operations of the Santa Clara Conference and Convention Center (Convention Center). Under the terms of this agreement, the Chamber will receive for its services an annual management fee identified in the Convention Center budget and approved by the City Council. In fiscal year ended June 30, 2005, the Convention Center paid the Chamber \$45 thousand. Each agreement is extendible for an additional year at the end of each year. Either party may terminate the agreements by providing 180 days written notice.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 6 – ENTERPRISE FUND MANAGEMENT AGREEMENTS (Continued)**

**B. American Golf Corporation**

In May 1987, SOSA entered into a management agreement with American Golf Corporation (AGC) to manage the operations of the Santa Clara Golf and Tennis Club (SCG&TC). On June 4, 2002, SOSA approved an additional extension of the management agreement to June 30, 2007. The terms of the extended management agreement are essentially the same as the original agreement. Under the extended agreement, AGC is entitled to receive an annual management fee equal to a fixed amount (currently about \$131 thousand per year) plus 3% of the gross revenues derived from the operation of SCG&TC. The fixed portion of the management fee is adjusted annually for changes in the consumer price index. In addition, AGC receives an annual administration fee of an amount not to exceed \$55 thousand. In fiscal year 2004-05, the City paid a total of \$279 thousand under this contract.

**NOTE 7 – FAIRWAY GLEN DEVELOPMENT PROJECT AGREEMENTS**

**A. Disposition and Development Agreement (Original DDA)**

A Disposition and Development Agreement dated November 1, 1988 and First Implementation Agreement dated January 17, 1990 (collectively, the Original DDA) was entered into by SOSA and a private developer for the lease of land owned by SOSA and phased development of the Fairway Glen Development Project consisting of seven parcels (74.29 acres) for multifamily residential rental housing and two parcels (9.3 acres) for a commercial center.

In April 1994, subsequent to the lease of the first two residential parcels and the completion of construction of Bella Vista Apartment Community (Phase R-1) on those parcels, the developer exercised the option to terminate the Original DDA as to all remaining phases of development. SOSA and the developer entered into discussions relative to a limited development of the remaining parcels. The discussions resulted in the Agreement to Amend Ground Lease (See Note 7B) and a new Disposition and Development Agreement (New DDA) for the development of Parcels R-3 and R-4 (See Note 7C).

**B. Agreement to Amend Ground Lease**

The Agreement to Amend Ground Lease (Agreement to Amend) was entered into by SOSA and the developer in February 1996.

Concurrent with the Agreement to Amend, SOSA and the Agency entered into a Cooperation Agreement (Cooperation). Under the Cooperation, a Master Lease was executed for Parcel R-1. The execution of a Master Lease resulted in the conversion of the Ground Lease into a Sublease and the assignment of SOSA's interest as lessor under the Ground Lease to the Agency at the time of the recordation of the Amended Sublease.

As provided in the Agreement to Amend, the Agency as Sublessor and the developer as Sublessee have entered into an Amended Sublease (Sublease) for Parcel R-1. The Sublease transformed the existing unsubordinated Ground Lease from SOSA to developer into a rent-subordinated sublease from the Agency to developer. The terms of the Sublease are intended to permit the developer to obtain financing secured by its subleasehold interest in the Sublease and the Agency's interest in the Master Lease.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 7 – FAIRWAY GLEN DEVELOPMENT PROJECT AGREEMENTS (Continued)**

Under the Sublease, the Agency is entitled to a minimum rent of \$1,200 per net acre monthly, or \$27,054 per month. The minimum rent is subject to adjustment at amounts calculated at times specified in the Amended Sublease. The minimum rent was adjusted to \$41,805 per month starting July 2003 following the refinancing of the sublessee's interest in June 2003. The Agency is also entitled to additional rent calculated at a specified percentage of net operating income, operating cash flow, and as applicable, refinancing or sales proceeds. In fiscal year 2004-05, the Agency received \$502 thousand, \$22 thousand and \$180 thousand in minimum, percentage and participation rents respectively. All amounts received by the Agency under the agreement are paid to SOSA. The Sublease provides for a maximum term of 75 years from August 15, 1996 that includes two ten-year option terms.

**C. New Disposition and Development Agreement (New DDA)**

In January 1996, the Agency and the developer entered into a new Disposition and Development Agreement (New DDA). The New DDA provides for the execution and recordation of Master Leases for Parcels R-3 and R-4 between SOSA and the Agency and for the subleasing of Parcels R-3 and R-4 from the Agency by the developer. Under the New DDA, the Agency has ground subleased Parcels R-3 and R-4 and the Developer has constructed thereon 252 and 276 housing units, respectively.

Under the terms of subleases, the Agency is entitled to a minimum rent payment of \$1,200 per net acre per month or \$11,945 per month for Nantucket (Parcel R-3) and \$12,970 per month for Carlyle (Parcel R-4). In addition, the Agency receives percentage and participation rents calculated in accordance with formula specified in the subleases. Commencing with the rent payment of September 2005, the minimum rent for Parcel R-3 will be adjusted to \$17,462 per month as a result of the refinancing of the sublessee's interest on the Nantucket Community in August 2005. In fiscal year 2004-05, the Agency received from Parcel R-3 sublease \$143 thousand and \$74 thousand in minimum and participation rents, respectively, and from Parcel R-4 sublease \$156 thousand, \$167 thousand and \$1.5 thousand in minimum, percentage, and participation rents, respectively. All amounts received by the Agency under the foregoing agreements are paid to SOSA.

**D. SOSA Future Lease Revenues**

The following schedule summarizes the future minimum lease payments to be received by SOSA from the Fairway Glen development project (Note 7B & 7C) and from a separate lease agreement with a restaurant operator for a restaurant facility (David's) at the SCG&TC:

Fiscal Year Ending June 30	Fiscal Year			David's Restaurant	Total
	R-1 Bella Vista	R-3 Nantucket	R-4 Carlyle		
2006	\$ 501,660	\$ 198,509	\$ 155,635	\$ 48,000	\$ 903,804
2007	501,660	209,544	155,635	40,000	906,839
2008	501,660	209,544	155,635		866,839
2009	501,660	209,544	155,635		866,839
2010	501,660	209,544	155,635		866,839
Thereafter	<u>20,651,670</u>	<u>8,696,076</u>	<u>6,809,040</u>		<u>36,156,786</u>
Total	<u>\$ 23,159,970</u>	<u>\$ 9,732,761</u>	<u>\$ 7,587,215</u>	<u>\$ 88,000</u>	<u>\$ 40,567,946</u>

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 8 – CASH AND INVESTMENTS**

Cash and Cash Equivalents

The City pools cash from all sources and all funds except restricted cash and investments with fiscal agent. Allocable portions of the pooled portfolio for each fund type are reported under the captions “Pooled cash and investments” and “Cash designated for construction.” Interest income earned on pooled cash and investments is allocated to various funds based on average cash balances of each fund unless there are specific legal or contractual requirements to do otherwise.

Total cash and investments of the City were \$871.5 million as of June 30, 2005. This amount includes the City’s cash and cash equivalents of \$807.4 million, and cash and investments with fiscal agents of \$64.1 million.

Of the City’s total cash and investments, the following shows the allocation as presented on the accompanying statement of net assets:

Pooled cash and investments	\$ 797,777,765
Cash with fiscal agent	<u>63,918,170</u>
Total City cash and investments	861,695,935
Cash and investments in Fiduciary Funds (separate statement)	<u>9,766,178</u>
Total cash and investments	<u><u>\$ 871,462,113</u></u>

The City’s cash and investments balances in governmental, enterprise, internal service funds, and fiduciary funds were as follows:

	Governmental Funds	Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
Pooled cash and investments	\$ 209,967,459	\$ 455,875,104	\$ 11,463,563	\$ 9,545,596	\$ 686,851,722
Cash designated for construction	96,261,456	11,211,024			107,472,480
Investments with fiscal agent - current	938,433	12,822,967	19,922,276		33,683,676
Investments with fiscal agent - noncurrent	16,026,832	14,207,662		220,582	30,455,076
Deposits		12,999,159			12,999,159
Total cash and investments					<u><u>\$ 871,462,113</u></u>

Investments Authorized by the California Government Code and the City’s Investment Policy

The City’s investment strategy is to invest cash not required for current obligations in U. S. government securities, federal government agency securities, highly rated money market instruments and other investments in accordance with the City’s investment policy for a maximum term of five years for the General Fund portfolio. The City Council has authorized the purchase of securities with maturities greater than five years, specifically for the Electric Cost Reduction Account. This overall strategy allows the City to minimize its exposure to credit, market, and liquidity risk while maintaining a reasonable return on its portfolio.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 8 – CASH AND INVESTMENTS (Continued)**

The City's investment policy, in compliance with the City of Santa Clara Charter, Article IX, Section 904 (d) and (h), and the California Government Code, authorize the City to invest in securities that are consistent with the City's cash management strategy and long-term goals and objectives. The City is authorized to invest in the following types of instruments, and the table also identifies certain provisions of the California Government Code, or the City's investment policy where it is more restrictive:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio (A)	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	N/A	None	None
U.S. Agency Securities	5 years	N/A	None	None
Negotiable Certificates of Deposit	5 years	N/A	30%	None
Banker's Acceptances	180 days	N/A	40%	30%
Commercial Paper	270 days	A1 / P1	25%	10%
California Local Agency Investment Fund	N/A	N/A	None	\$40M per account
Repurchase Agreements	1 year	N/A	None	None
Reverse Repurchase Agreements (require City Council approval)	92 days	N/A	None	None
Tax Exempt Municipal Bonds (for yield restriction purposes)	5 years	N/A	None	None
Medium Term Corporate Notes	5 years	Top three rating categories	15%	None
Mutual Funds	N/A	Top rating category	20%	10%
Investment Pools	N/A	Top rating category	20%	10%

(A) The percentages shown in this column represent the maximum percentages of "idle cash," defined as "Money in the Treasury not required for the immediate needs of the local agency," by the City's investment policy.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 8 – CASH AND INVESTMENTS (Continued)**

Investments Authorized by Debt Agreements

The City invests bond proceeds designated for construction in instruments that are stated in the Investment Policy and in various return-guaranteed investment agreements. These investments are invested in accordance with bond indentures and the maturities of each investment should not exceed the final maturity of each bond. Bond proceeds investments are reported monthly to the City Council.

The City also maintains required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code 53601 (L) allows these funds to be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, other agreements, or certificates of participation in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance. For disclosure purposes, debt proceeds that comply with this provision are listed as follows:

Description	Invested Amount	Nature of Funds	Invested with	Investment Type
<b><i>Governmental Activity Debt:</i></b>				
RDA Tax Allocation Bonds Series 2003	\$ 35,786,012	Bond Proceeds	Trinity Plus Funding Co., LLC	Investment Agreement
RDA Tax Allocation Bonds Series 2003	2,032,604	Reserve Fund	California Local Agency Investment Fund	Investment Pool
RDA Tax Allocation Refunding Bonds Series 2002	3,855,809	Reserve Fund	Federal Home Loan Mortgage Corporation	Agency Security
RDA Tax Allocation Bonds Series 1999	56,167,970	Bond Proceeds	AIG Matched Funding Corp.	Investment Agreement
RDA Tax Allocation Refunding Bonds Series 1992	1,059,925	Reserve Fund	BNY Hamilton Treasury Money Market Fund	Mutual Fund
RDA Tax Allocation Refunding Bonds Series 1992	3,549,796	Reserve Fund	AIG Matched Funding Corp.	Investment Agreement
Traffic Mitigation #1 & #2 Bonds	4,246,996	Bond Proceeds	Dreyfus Treasury Cash Management	Mutual Fund
1997 Certificates of Participation	1,214,452	Reserve Fund	Federal Home Loan Mortgage Corporation	Agency Security
1997 Certificates of Participation	113,671	Reserve Fund	BNY Hamilton Treasury Money Market Fund	Mutual Fund
1997 Certificates of Participation	302	Debt Service	BNY Hamilton Treasury Money Market Fund	Mutual Fund
2002 Certificates of Participation Series A & Refunding Certificates of Participation Series B	5,011,360	Reserve Fund	Federal Home Loan Bank	Agency Security
2002 Certificates of Participation Series A & Refunding Certificates of Participation Series B	104,118	Reserve Fund	BNY Hamilton Treasury Money Market Fund	Mutual Fund
2002 Refunding Certificates of Participation Series B	2,881	Reserve Fund	BNY Hamilton Treasury Money Market Fund	Mutual Fund
2002 Refunding Certificates of Participation Series B	196	Lease Payment	BNY Hamilton Treasury Money Market Fund	Mutual Fund
Insurance Funding Bonds-Series 1987	19,921,593	Reserve Fund	United States Government	Treasury Note
Insurance Funding Bonds-Series 1987	684	Reserve Fund	BNY Hamilton Treasury Money Market Fund	Mutual Fund

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 8 – CASH AND INVESTMENTS (Continued)**

Description	Invested Amount	Nature of Funds	Invested with	Investment Type
<b><i>Business-type Activity Debt:</i></b>				
2003 Series A Revenue Bonds	3,753,142	Bond Proceeds	California Local Agency Investment Fund	Investment Pool
2003 Series B Revenue Bonds	4,940,875	Bond Proceeds	California Local Agency Investment Fund	Investment Pool
2003 Series A Revenue Bonds	4,943,546	Debt Service	BNY Hamilton Treasury Money Market Fund	Mutual Fund
2003 Series B Revenue Bonds	55,641	Debt Service	BNY Hamilton Treasury Money Market Fund	Mutual Fund
2003 Series A Revenue Bonds	3,321,834	Reserve Fund	BNY Hamilton Treasury Money Market Fund	Mutual Fund
2003 Series B Revenue Bonds	1,620,751	Reserve Fund	BNY Hamilton Treasury Money Market Fund	Mutual Fund
1991 Series B	2,090,000	Debt Service	BNY Hamilton Treasury Money Market Fund	Mutual Fund
1998 Series A	2,654,358	Bond Proceeds	BNY Hamilton Treasury Money Market Fund	Mutual Fund
Electric Revenue Bonds Series A, B & C 1985	3,079,499	Debt Service	BNY Hamilton Treasury Money Market Fund	Mutual Fund
Electric Revenue Bonds Series A, B & C 1985	9,265,000	Reserve Fund	Wachovia Bank N.A.	Investment Agreement

RDA bond proceeds designated for construction projects are invested by the City. Electric Reserve Fund proceeds are held by the trustee as fiscal agent investments. All funds have been invested as permitted under the Code. These investments are usually scheduled to mature when cash is needed to fulfill the requirements of the underlying bond and trust agreements. All investment transactions receive prior approval from the City's Director of Finance before they are executed.

**Interest Rate Risk and Credit Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. To reduce interest rate risk, the City diversifies the portfolio into a wide range of investments with different maturities, maintains a reasonable average maturity of less than three years, and purchases callable bonds with only a one-time call feature. This approach significantly mitigates adverse market volatility and maximizes returns.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 8 – CASH AND INVESTMENTS (Continued)**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2005 for each investment type, as provided by Standard and Poor's investment rating service.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity or call date, whichever is earlier.

Type of Investment	Credit Rating	Maturity				Carrying Value
		Under 180 Days	181 - 365 Days	1 - 3 Years	3 - 5 Years	
Cash and investments in City Treasury:						
Cash (overdraft)	N/A	\$ (157,132)	\$ -	\$ -	\$ -	\$ (157,132)
U.S. Treasury notes and bonds	N/A	85,904,375	22,050,000	-	-	107,954,375
Federal Farm Credit Banks	AAA	8,423,437	10,431,250	48,563	-	18,903,250
Federal Home Loan Banks	AAA	42,716,563	45,562,813	11,989,203	3,169,220	103,437,799
Federal National Mortgage Association	AAA	97,316,250	48,284,422	68,404,247	5,892,360	219,897,279
Federal Home Loan Mortgage Corporation	AAA	17,303,664	65,670,491	82,282,812	14,832,188	180,089,155
Corporate notes	AAA	-	3,032,094	-	48,875	3,080,969
Corporate notes	AA	1,565,859	-	102,291	268,937	1,937,087
Corporate notes	A	-	100,946	25,675	-	126,621
Corporate notes	BAA	-	-	50,022	151,183	201,205
Corporate stock	A	490,634	-	-	-	490,634
Corporate stock	B	247,233	-	-	-	247,233
Corporate stock	C	9,174	-	-	-	9,174
Corporate stock	Not Rated	418,859	-	-	-	418,859
Mutual fund	AAA	40,041,076	-	-	-	40,041,076
Mutual fund	Not Rated	1,850,596	-	-	-	1,850,596
State Investment Pool	Not Rated	10,665,802	-	-	-	10,665,802
Total cash and investments in the City Treasury		306,796,390	195,132,016	162,902,813	24,362,763	689,193,982
Cash and investments with fiscal agent and restricted investments:						
Cash	N/A	10,000	-	-	-	10,000
U.S. Treasury notes and bonds	N/A	-	-	19,921,593	-	19,921,593
Federal Home Loan Banks	AAA	5,011,360	-	-	-	5,011,360
Federal Home Loan Mortgage Corporation	AAA	184,080	-	5,070,261	-	5,254,341
Investment Agreements	AAA	-	-	35,786,012	-	35,786,012
Investment Agreements	AA	-	-	56,212,993	3,549,796	59,762,789
Investment Agreements	A	-	-	-	9,265,000	9,265,000
Mutual fund	AAA	36,293,565	-	-	-	36,293,565
Mutual fund	Not Rated	26,499	-	-	-	26,499
State Investment Pool	Not Rated	10,936,972	-	-	-	10,936,972
Total Cash and investments with fiscal agent and restricted investments		52,462,476	-	116,990,859	12,814,796	182,268,131
Total cash and investments		\$ 359,258,866	\$ 195,132,016	\$ 279,893,672	\$ 37,177,559	\$ 871,462,113

Maturity for callable notes is based on call dates. Corporate stocks were purchased by an external manager for the Bentzien Trust with the approval of the City Council.

The average maturity of the City's pooled investment portfolio was approximately 1.79 years. The City has the ability to and generally intends to hold all investments to maturity.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 8 – CASH AND INVESTMENTS (Continued)**

The City accounts for investments in accordance with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires governmental entities to report certain investments at fair value based on quoted market information obtained from recognized sources. The City has reported its investments at fair value with the exception of its share of external investment pools and mutual funds, the carrying value of which approximates fair value. In determining the change in fair value of its investments, the City used an aggregate method of calculation. The entire portfolio was valued at the beginning and end of the year and the change in fair value, net of purchases and maturities during the year, was reported as a \$1.3 million decrease in investment earnings. The aggregate method resulted in a net decrease of \$6.5 million in the balance of the City's pooled investments as of June 30, 2005.

Concentration of Credit Risk

Investments in the securities of any individual issuers that represent 5% or more of total City-wide investments are shown in the table below:

<u>Issuer</u>	<u>Investment Type</u>	<u>Amount</u>
Federal Home Loan Banks	Federal Agency Securities	\$108,449,159
Federal National Mortgage Association	Federal Agency Securities	219,897,279
Federal Home Loan Mortgage Corporation	Federal Agency Securities	185,343,496
AIG Matched Funding Corporation	Investment Agreements	59,762,789

The Redevelopment Agency Fund was the only major fund that had investments in the securities of individual issuers that represent 5% or more of total investments by individual fund, which were as follows at June 30, 2005:

<u>Issuer</u>	<u>Investment Type</u>	<u>Amount</u>
Trinity Plus Funding Co., LLC	Investment Agreement	\$35,786,012
AIG Matched Funding Corporation	Investment Agreement	59,762,789

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 8 – CASH AND INVESTMENTS (Continued)**

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of the City's cash on deposit. All of the City's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's Investment Policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the City, including collateral for repurchase agreements, be conducted on a delivery-versus-payment basis. Securities are to be held by a third party custodian.

The City has no deposits or investments that are not held in the manner described above.

Local Agency Investment Fund

The City is a voluntary participant in the Local Agency Investment Fund (LAIF). LAIF is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. The carrying value of LAIF approximates fair value.

**NOTE 9 – INTERFUND TRANSACTIONS AND BALANCES**

**A. Interfund Transfers**

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers, is to reimburse a fund which has made an expenditure on behalf of another fund. Less often, a transfer may be made to open or close a fund.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 9 – INTERFUND TRANSACTIONS AND BALANCES (Continued)**

Transfers between funds during the fiscal year ended June 30, 2005 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred	
<b>General Fund</b>	Redevelopment Agency	\$ 3,639,003	(A)
	Sports and Open Space Authority	2,427,750	(B)
	Non-Major Governmental	7,405,325	(C)
<b>Redevelopment Agency</b>	Non-Major Governmental	156,848	
<b>Non-Major Governmental</b>	General Fund	13,234,473	(D)
	Redevelopment Agency	780,933	(E)
	Electric Utility	692,478	(F)
	Water Utility	36,351	(F)
	Sewer Utility	20,000	(F)
	Water Recycling Utility	5,000	
	Internal Service	330,000	(G)
<b>Internal Service Funds</b>	General Fund	1,347,367	(H)
	Electric Utility	366,348	(H)
	Water Utility	58,026	(H)
	Sewer	27,111	(H)
	Water Recycling Utility	6,304	(H)
	Solid Waste	2,731	(H)
	Cemetery	9,733	(H)
	Internal Service	31,465	(H)
<b>Water Utility</b>	Water Recycling Utility	580,000	(I)
<b>Solid Waste</b>	General Fund	582,669	(J)
<b>Cemetery</b>	Non-Major Governmental	39,364	(J)
<b>Sports and Open Space Authority</b>	Santa Clara Golf and Tennis Club	1,110,936	(K)
<b>Santa Clara Convention Center</b>	General Fund	913,218	(L)
Total Interfund Transfers		<u>\$ 33,803,433</u>	

**The reasons for material transfers are set forth below:**

- (A) Transfer per the cooperation agreement between General Fund and RDA.
- (B) Transfer per the cooperation agreement between General Fund and SOSA.
- (C) Transfer to General Fund from Capital Projects Funds to return unspent project funds
- (D) Transfer to fund various projects in the Capital Projects Funds and pay debt service.
- (E) Transfer to fund housing projects included in the HUD Special Revenue Fund.
- (F) Transfer to fund their respective share of new financial and human resources software installation project.
- (G) Transfer to fund communication acquisitions.
- (H) Transfer to fund workers' compensation claims, computer dispatch upgrades, technology improvements, and automotive services.
- (I) Transfer to reimburse Water Recycling Fund for loss of revenue due to the sale of recycled water.
- (J) Transfer to subsidize operations.
- (K) Transfer lease payments from American Golf, Interland, and others in accordance with the lease agreements.
- (L) Transfer to fund Santa Clara Convention Center activities.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 9 – INTERFUND TRANSACTIONS AND BALANCES (Continued)**

**B. Current Interfund Balances**

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. The following is a summary of interfund balances as of June 30, 2005.

Receivable Fund	Payable Fund	Amount
<b>General Fund</b>	Non-Major Governmental	\$ 87,391
	Cemetery	165,352
	Santa Clara Convention Center	996,922
<b>Non-Major Governmental</b>	Internal Service Fund	9,884
	Receivable by Governmental Funds	<u>\$ 1,259,549</u>
<b>Electric Utility</b>	Internal Service Fund	\$ 1,606,145
	Non-Major Governmental	1,005,301
<b>Water Utility</b>	Internal Service Fund	261,777
	Non-Major Governmental	80,861
<b>Sewer</b>	Internal Service Fund	543,191
	Non-Major Governmental	56,077
<b>Solid Waste</b>	Internal Service Fund	865,355
	Non-Major Governmental	49,756
<b>Cemetery</b>	Internal Service Fund	134,368
	Receivable by Enterprise Funds	<u>\$ 4,602,831</u>
<b>Internal Service Fund</b>	Internal Service Fund	\$ 175,089
	Receivable by Internal Service Funds	<u>\$ 175,089</u>

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 9 – INTERFUND TRANSACTIONS AND BALANCES (Continued)**

**C. Long-Term Interfund Advances**

At June 30, 2005 the funds below had made advances which were not expected to be repaid within the next year.

<u>Fund Receiving Advance</u>	<u>Fund Making Advance</u>	<u>Amount of Advance</u>
Redevelopment Agency	General Fund	\$ 9,431,325
Cemetery	General Fund	1,349,780
Santa Clara Golf & Tennis Club	General Fund	<u>3,774,134</u>
Total Advances		<u><u>\$ 14,555,239</u></u>

**Redevelopment Agency Fund** has a \$9,431,325 advance that bears interest which is based on the City's portfolio rate, and will be repaid to General Fund in annual installments after fulfilling the Agency's debt service, capital project, and 20% housing set-aside transfer obligations.

**Cemetery Fund** has a \$1,349,780 advance that bears no interest and will be repaid when funds become available. The advance is a long term subsidy of operations pending mausoleum project funding in future years, which is expected to generate additional revenues.

**Santa Clara Golf and Tennis Club Fund** has a \$3,774,134 advance which does not bear interest, and will be repaid in annual installments after completion of capital improvements from income generated by these capital improvements.

**D. Internal Balances**

Internal balances represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 10 - CAPITAL ASSETS**

**A. Capital Assets Summary**

**Capital assets at June 30 comprise:**

	Balance June 20, 2004	Additions	Retirements	Transfers	Balance June 30 2005
<b>Governmental Activities</b>					
Non Depreciable Assets:					
Land	\$ 103,460,407	\$ 5,989,307	\$ (248,066)	\$ (10,034,414)	\$ 99,167,234
Construction In Progress	51,627,196	12,529,940	(409,805)	(49,165,995)	14,581,336
Total Non Depreciable Assets	<u>155,087,603</u>	<u>18,519,247</u>	<u>(657,871)</u>	<u>(59,200,409)</u>	<u>113,748,570</u>
Capital assets being depreciated:					
Land Improvements	6,112,067	-	-	9,411,850	15,523,917
Buildings & Improvements	112,063,911	-	(841,517)	15,124,170	126,346,564
Machinery & Equipment	44,732,242	2,297,633	(1,713,654)	16,397,349	61,713,570
Infrastructure	364,264,995	2,340,000		18,267,040	384,872,035
Total Capital assets being depreciated	<u>527,173,215</u>	<u>4,637,633</u>	<u>(2,555,171)</u>	<u>59,200,409</u>	<u>588,456,086</u>
Less accumulated depreciation for:					
Land Improvements	(2,419,252)	(486,706)	-	-	(2,905,958)
Buildings & Improvements	(13,093,036)	(2,432,731)	-	-	(15,525,767)
Machinery & Equipment	(27,323,777)	(4,912,373)	1,526,703	-	(30,709,447)
Infrastructure	(109,945,948)	(10,102,364)	-	-	(120,048,312)
Total accumulated depreciation	<u>(152,782,013)</u>	<u>(17,934,174)</u>	<u>1,526,703</u>	<u>-</u>	<u>(169,189,484)</u>
Net Depreciable Assets	<u>374,391,202</u>	<u>(13,296,541)</u>	<u>(1,028,468)</u>	<u>59,200,409</u>	<u>419,266,602</u>
Governmental Activity Net Capital Assets	<u>\$ 529,478,805</u>	<u>\$ 5,222,706</u>	<u>\$ (1,686,339)</u>	<u>\$ -</u>	<u>\$ 533,015,172</u>
<b>Business-Type Activities</b>					
Non Depreciable Assets:					
Land and Improvements	\$ 16,818,450	\$ -	\$ -	\$ 9,160	\$ 16,827,610
Construction In Progress	166,206,879	69,495,155		(232,119,228)	3,582,806
Total Non Depreciable Assets	<u>183,025,329</u>	<u>69,495,155</u>	<u>-</u>	<u>(232,110,068)</u>	<u>20,410,416</u>
Capital assets being depreciated:					
Buildings and Improvements	577,085,877	1,744,675	(2,093,016)	231,221,446	807,958,982
Machinery & Equipment	13,785,129	660,093	(481,088)	888,622	14,852,756
Total capital assets being depreciated	<u>590,871,006</u>	<u>2,404,768</u>	<u>(2,574,104)</u>	<u>232,110,068</u>	<u>822,811,738</u>
Less accumulated depreciation for:					
Buildings and Improvements	(263,684,364)	(16,486,406)	-	-	(280,170,770)
Machinery & Equipment	(11,477,428)	(805,588)	566,754	-	(11,716,262)
Total accumulated depreciation	<u>(275,161,792)</u>	<u>(17,291,994)</u>	<u>566,754</u>	<u>-</u>	<u>(291,887,032)</u>
Net Depreciable Assets	<u>315,709,214</u>	<u>(14,887,226)</u>	<u>(2,007,350)</u>	<u>232,110,068</u>	<u>530,924,706</u>
Enterprise Activity Net Capital Assets	<u>\$ 498,734,543</u>	<u>\$ 54,607,929</u>	<u>\$ (2,007,350)</u>	<u>\$ -</u>	<u>\$ 551,335,122</u>

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 10 - CAPITAL ASSETS (Continued)**

Construction in progress for governmental activities as of June 30, 2005, consisted of the following projects:

Major Projects	Authorized	Expended	Future Commitment
Transportation Improvements	\$ 9,267,343	\$ 2,483,642	\$ 6,783,701
Technology Application & Implementation Projects	1,242,688	655,500	587,188
Redevelopment Agency Projects	55,145,789	4,662,941	50,482,848
City Building Improvements	13,146,426	4,579,114	8,567,312
Parks and Recreation Facilities Improvement	13,354,389	2,200,139	11,154,250
	<u>\$ 92,156,635</u>	<u>\$ 14,581,336</u>	<u>\$ 77,575,299</u>

Construction in progress for business-type activities as of June 30, 2005, consisted of the following projects:

Major Projects	Authorized	Expended	Future Commitment
Electric Projects	\$ 7,466,141	\$ 3,046,515	\$ 4,419,626
Sewer Projects	2,376,733	503,036	1,873,697
Sports & Open Space Authority	500,628	33,255	467,373
	<u>\$ 10,343,502</u>	<u>\$ 3,582,806</u>	<u>\$ 6,760,696</u>

Details of these projects are available from the City on request.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 10 - CAPITAL ASSETS (Continued)**

**B. Depreciation Allocation**

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

Governmental Activities:

General Administration	\$ 1,282,524
City Clerk	10,031
City Attorney	1,017
Human Resources	5,242
Finance	93,930
Public Works	12,999,864
Parks and Recreation	374,404
Public Safety	
Police	249,616
Fire	323,128
Communication	131,216
Planning & Inspection	91,683
Library	969,064
Capital assets held by the City's Internal Service	
Funds are charged to the various functions based on their usage of the assets	<u>1,402,455</u>
Total Governmental Activities	<u><u>\$ 17,934,174</u></u>

Business-type Activities:

Utility Funds:

Electric Utility	\$ 13,392,798
Water Utility	954,191
Sewer Utility	458,639
Solid Waste	23,918
Cemetery	37,883
Santa Clara Golf and Tennis Club	806,225
Santa Clara Convention Center	<u>1,618,340</u>
Total Business-type Activities	<u><u>\$ 17,291,994</u></u>

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 11 – LONG-TERM OBLIGATIONS**

As of June 30, 2005, outstanding long-term obligations consisted of the following:

<u>Type of Indebtedness</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Range of * Interest Rates</u>	<u>Authorized and Issued</u>
Governmental Activity Debt:				
Special Assessment Bonds with City Commitment	12/1/98	9/2/11	4.10-5.20	\$ 10,325,000
1997 Certificates of Participation	7/1/97	8/1/22	4.5-5.375	16,050,000
Certificates of Participation, 2002 Series A	10/22/02	2/1/32	3.00-5.00	25,025,000
Refunding Certificates of Participation, 2002 Series B	10/22/02	2/1/14	3.00-4.50	33,505,000
Redevelopment Agency Obligations:				
Senior Secured Refunding Notes	6/1/89	12/31/05	11.24	42,000,000
Bayshore North Project 1992 TA Refunding Bonds	10/22/92	7/1/14	2.88-7.00	74,240,000
Bayshore North Project 1999 TA Bonds Series A	8/1/99	6/1/23	5.25-5.50	31,550,000
Bayshore North Project 1999 TA Bonds Series B	8/1/99	6/1/17	5.25-5.50	16,905,000
Bayshore North Project 2002 TA Refunding Bonds	6/6/02	6/1/14	4.00-5.50	33,910,000
Bayshore North Project 2003 TA Bonds	4/30/03	6/1/23	5.00	43,960,000
				<u>327,470,000</u>
Insurance Funding Bonds-Series 1987	4/13/87	4/1/12	3.25	<u>20,000,000</u>
Total Government-type Activity Debt:				<u>\$ 347,470,000</u>
Business-type Activity Debt				
Enterprise Long Term Debt				
Electric Utility:				
1985 Series A Revenue Bonds	8/1/85	7/1/10	Adjustable	\$ 25,000,000
1985 Series B Revenue Bonds	8/1/85	7/1/10	Adjustable	25,000,000
1985 Series C Revenue Bonds	8/1/85	7/1/10	Adjustable	28,300,000
1991 Series B Revenue Refunding Bonds	1/28/92	7/1/10	4.85-5.90	23,194,000
1998 Series A Revenue Bonds	3/1/98	7/1/27	4.5-5.25	89,275,000
2003 Series A Revenue Bonds	10/9/03	7/1/28	2.50-5.25	100,000,000
2003 Series B Revenue Bonds	10/9/03	7/1/34	Adjustable	50,000,000
Unamortized Discount/Premium				-
Total of Electric Utility Revenue Bonds				<u>340,769,000</u>
Water Recycling Utility:				
State Water Resource Control Board Loan	1/9/89	1/22/08	4.0128	<u>975,000</u>
Total Business-type Activity Debt				<u>\$ 341,744,000</u>

\* Interest on all bonded indebtedness is payable semiannually with the exception of the interest on the 1985 Electric Adjustable Rate Revenue Bonds Series A, B & C, and Electric Revenue Bonds Series 2003 B, which are payable monthly.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 11 – LONG-TERM OBLIGATIONS (Continued)**

<u>Outstanding as of June 30, 2004</u>	<u>Debt Retired</u>	<u>Additions and Amortization of Discounts</u>	<u>Outstanding as of June 30, 2005</u>	<u>Current Portion</u>
\$ 7,490,000	\$ 790,000	\$ -	\$ 6,700,000	\$ 825,000
14,400,000	465,000	-	13,935,000	485,000
24,835,000	485,000	-	24,350,000	500,000
30,775,000	2,335,000	-	28,440,000	2,395,000
6,584,014	4,871,286	-	1,712,728	1,712,728
26,630,000	-	-	26,630,000	-
31,550,000	-	-	31,550,000	-
16,905,000	-	-	16,905,000	-
25,585,000	4,405,000	-	21,180,000	-
43,960,000	-	-	43,960,000	-
<u>228,714,014</u>	<u>13,351,286</u>	<u>-</u>	<u>215,362,728</u>	<u>5,917,728</u>
<u>20,000,000</u>	<u>-</u>	<u>-</u>	<u>20,000,000</u>	<u>-</u>
<u>\$ 248,714,014</u>	<u>\$ 13,351,286</u>	<u>\$ -</u>	<u>\$ 235,362,728</u>	<u>\$ 5,917,728</u>
\$ 14,400,000	\$ 1,700,000	\$ -	\$ 12,700,000	\$ 1,900,000
14,400,000	1,700,000	-	12,700,000	1,900,000
16,300,000	2,000,000	-	14,300,000	2,100,000
5,518,584	-	353,017	5,871,601	2,090,000
85,415,000	440,000	-	84,975,000	515,000
100,000,000	-	-	100,000,000	2,575,000
50,000,000	-	-	50,000,000	-
(5,723,808)	-	300,152	(5,423,656)	-
<u>280,309,776</u>	<u>5,840,000</u>	<u>653,169</u>	<u>275,122,945</u>	<u>11,080,000</u>
<u>299,616</u>	<u>62,225</u>	<u>-</u>	<u>237,391</u>	<u>64,722</u>
<u>\$ 280,609,392</u>	<u>\$ 5,902,225</u>	<u>\$ 653,169</u>	<u>\$ 275,360,336</u>	<u>\$ 11,144,722</u>

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 11 – LONG-TERM OBLIGATIONS (Continued)**

**A. City Long-term Obligations**

Special Assessment Bonds with City Commitment

On December 1, 1998, the City completed the sale of the Santa Clara Convention Center Complex Improvement Project Reassessment District No. 186 Series 1998 Bonds (SCCC 1998 Bonds) having a par value of \$10.33 million. The SCCC 1998 Bonds were issued to refund the Santa Clara Convention Center Complex Improvement Project Reassessment District No. 183 Series 1985 Bonds totaling \$10.34 million. The Reassessment Bonds consist of \$3.63 million of serial bonds maturing from 2000 to 2005; \$4.55 million of term bonds maturing from 2006 to 2010; and \$2.16 million of term bonds maturing from 2011 to 2012. The District consists of two parcels, both owned by the Redevelopment Agency of the City of Santa Clara and subject to ground leases. Debt service on the SCCC 1998 Bonds is primarily payable from annual installments of unpaid reassessments. Special assessment bonds are collateralized by liens against the properties benefited and debt service payments on each issue are made from assessments included on the County tax roll. The City is entitled to recover any delinquent payments either from the property owner or from the proceeds of a foreclosure sale.

With the exception of the SCCC 1998 Bonds, the City has no duty to transfer into the redemption fund the amount of the delinquency out of available funds of the City, other than from the reserve fund. Therefore, special assessment bonds other than the SCCC 1998 Bonds are reported under Agency Fund in the financial statements because they are not considered as the City's long-term obligations.

1997 Police Administration Building Project Certificates of Participation

On May 19, 1997, the City Council established the Santa Clara Public Facilities Financing Corporation (PFFC). The PFFC was the issuing agency for the 1997 Police Administration Building Project Certificates of Participation (1997 COP). In July 1997, the PFFC issued a \$16.05 million 25-year COP. The issue consists of \$11.73 million of serial bonds maturing from 2000 to 2018 and \$4.32 million of term bonds maturing in 2022. Debt service on the 1997 COP is secured by lease payments to be made by the City to the PFFC for the use of the Police Administration Building site. The PFFC assigns lease payments to the certificate-holders.

2002 Certificates of Participation, Series A Bonds

On November 14, 2002, the City's PFFC issued \$25.03 million of the 2002 Certificates of Participation, Series A Bonds (2002A COP). Proceeds of the 2002A COP were used to finance a portion of the City's Central Park Library. The 2002A COP matures serially in years 2004 through 2032, and bears interest at 3.0% to 5.0%. Debt service on the 2002A COP is secured by lease payments to be made by the City to the PFFC for the use of the library. The PFFC assigns the lease payments to the certificate owners.

2002 Certificates of Participation, Series B Bonds

On November 14, 2002, the City's Sports and Open Space Authority (SOSA) issued \$33.51 million of the 2002 Certificates of Participation, Series B Bonds (2002B COP). Proceeds of the 2002B COP were used to redeem outstanding balances of the LGFA Bonds and the 1993 COP. The 2002B COP matures serially in years 2003 through 2014, and bear interest at 3.0% to 4.5%. Debt service on the 2002B COP is secured by lease payments between the City and SOSA for the use of the golf course property and related facilities. SOSA assigns the lease payments to the certificate owners.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 11 – LONG-TERM OBLIGATIONS (Continued)**

Compliance

Various debt agreements governing the City's bonds contain a number of covenants, including continuing disclosure requirements. The City is in compliance with these specific covenants and all other material covenants governing the particular bond issues. No event or default as defined in the bond indentures has occurred, is occurring, or is anticipated to occur.

**B. Redevelopment Agency Long-term Obligations**

Senior Secured Refunding Notes

Proceeds from the 1989 Senior Secured Refunding Notes (RDA 1989 Notes), along with proceeds from the sale of the Theme Park and other monies, were used to retire the RDA 1985 Series A Adjustable Convertible Certificates of Participation totaling \$87.40 million. The Ground Lease the Agency entered into with Paramount (see Note 4A) guarantees the repayment of the RDA 1989 Notes. The Ground Lease has a 20-year term with an option to extend for three additional ten-year terms.

Bayshore North Project 1992 Tax Allocation Refunding Bonds

On October 22, 1992, the Agency issued \$74.24 million of the Bayshore North Project 1992 Tax Allocation Refunding Bonds 1992 Bonds (RDA 1992 Bonds). Proceeds of the RDA 1992 Bonds along with other available funds were deposited into two escrow funds. These escrow funds were used to advance refund a portion of the RDA 1987 Bonds and the RDA 1988A Bonds, and to reimburse the City for lease payments made by the City with respect to the RDA 1986 Refunding Certificates of Participation (Santa Clara Convention Center). The advance refunded portion of the RDA 1988 Bonds was retired on June 1, 1998. On June 6, 2002 the City exercised its option to redeem \$34.29 million of the RDA 1992 Bonds using proceeds of the Bayshore North Project 2002 Tax Allocation Refunding Bonds (RDA 2002 Bonds). The bonds were called at 102% of par value in accordance with the indenture. The remaining balance, \$26.63 million, of the RDA 1992 Bonds will mature on July 1, 2010. Debt service on the RDA 1992 Bonds is secured by tax increment revenue of the Agency.

Bayshore North Project 1999 Tax Allocation Bonds, Series A

On August 3, 1999, the Agency issued \$31.55 million of Bayshore North Project 1999 Tax Allocations Bonds, Series A (RDA 1999A Bonds) to partially fund the construction of a multi-story parking garage and a soccer park. The garage will be located in the vicinity of the Great America Theme Park and the Santa Clara Convention Center Complex and the soccer park is located near Tasman Drive. The RDA 1999A Bonds mature serially in years 2017 through 2019, with final maturity in year 2023. The bonds are subject to mandatory sinking fund redemption between 2020 and 2023 and optional redemption is available beginning June 1, 2009. The RDA 1999A Bonds bear interest rates between 5.25% and 5.50%. The bonds are insured by the Ambac Assurance Corporation. Debt service of the RDA 1999A Bonds is funded by the Agency's tax increment revenues.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 11 – LONG-TERM OBLIGATIONS (Continued)**

Bayshore North Project 1999 Tax Allocation Bonds, Series B

On August 18, 1999, the Agency issued \$16.91 million of Bayshore North Project 1999 Tax Allocation Bonds, Series B, (RDA 1999B Bonds) to partially fund the construction of the multi-story parking garage that was also funded by the RDA 1999A Bonds. The RDA 1999B Bonds mature serially in years 2011 through 2017. Optional redemption by the City is available beginning June 1, 2009. The RDA 1999B Bonds bear interest rates between 5.25% and 5.50%. The Bonds are insured by the Ambac Assurance Corporation. Debt service of the RDA 1999A Bonds is funded by the Agency's tax increment revenues.

Bayshore North Project 2002 Tax Allocation Bonds

On June 6, 2002, the Agency issued \$33.91 million of Bayshore North Project 2002 Tax Allocation Bonds (2002 Bonds), with an effective interest rate ranging from 4.0% to 5.5% for a term of 12 years. The proceeds of the 2002 Bonds were used to retire a portion of 1992 Bonds. Debt service for the bonds is funded from property taxes levied against the property owners.

Bayshore North Project 2003 Tax Allocation Bonds

On May 14, 2003, the Agency issued \$43.96 million of Bayshore North Project 2003 Tax Allocation Bonds (RDA2003 Bonds) to fund various Agency projects. The RDA2003 Bonds mature serially in years 2015 through 2023, and bear interest at 5.0%. The Bonds are insured by the MBIA Insurance Corporation. Debt service of the RDA2003 Bonds is funded by the Agency's tax increment revenues.

Compliance

Various debt agreements governing the Agency's bonds contain a number of covenants, including continuing disclosure requirements. The Agency is in compliance with these specific covenants and all other material covenants governing the particular bond issues. No event of default as defined in the bond indentures has occurred, is occurring, or is anticipated to occur.

**C. Internal Service Fund Obligations**

The Insurance Funding Bonds, Series 1987 (Insurance Bonds) are special obligations of the City payable from the proceeds of the Insurance Bonds. The proceeds were placed in an insurance fund and invested solely in federal securities sufficient to pay interest and principal. The purpose of the Insurance Bonds is to pay monetary damages of \$100,000 or more when a court of competent jurisdiction enters judgment against the City. In the event the City withdraws all or a portion of the amount on deposit in the insurance fund to pay a judgment, a principal amount of Insurance Bonds equal to such withdrawal will be converted to general obligation bonds. As of June 30, 2005, the City has incurred no judgments that required a withdrawal from the insurance fund.

The Insurance Bonds are subject to mandatory purchase and remarketing on April 1 every three years. On April 1, 2005, the Insurance Bonds were remarketed and the interest rate was reset to 3.0%. The next scheduled date to remarket the bonds will be April 1, 2008.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 11 – LONG-TERM OBLIGATIONS (Continued)**

The trust indenture governing the issuance of the Insurance Bonds contains certain covenants, including the obligation on the part of the City to rebate excess investment earnings (arbitrage), if any, to the Internal Revenue Service. The City is in compliance with the debt covenants, and no event of default as defined in the indenture has occurred, is occurring, or is anticipated to occur.

**D. Enterprise Funds**

**Electric Utility**

1985 Floating Rate Electric Revenue Bonds, Series A, B and C

The City's 1985 Floating Rate Electric Revenue Bonds, Series A, B and C (1985 Series A, B and C Bonds) amounting to \$25 million, \$25 million, and \$28.3 million, respectively, were issued to provide for the redemption of the 1984 Series B Electric Revenue Bonds. They bear interest at an adjustable rate, which is determined weekly. The average interest rate paid on the 1985 Series, A, B and C Bonds for the year ended June 30, 2005, was 1.8%. The 1985 A, B and C Bonds may be tendered by the holders for purchase at a price equal to 100% of the principal amount of any bond tendered, plus accrued and unpaid interest. Bonds tendered for purchase will be remarketed and the proceeds of the remarketing will be used to pay the purchase price of the tendered bonds. To provide funds to pay the purchase price of any tendered bonds, which were unable to be marketed, the City initially obtained an irrevocable letter of credit from National Westminster Bank, PLC. In August 1999, the letter of credit was replaced with a Municipal Bond Insurance Policy issued by Ambac Assurance Corporation and a standby Bond Purchase Agreement with Bank One. Debt service on the 1985 Series A, B and C Bonds is payable from the annual revenues of the Electric Utility Enterprise Fund.

1991 Series B Electric Revenue Refunding Bonds

In January 1992, the City issued \$23.19 million 1991 Series B Electric Revenue Refunding Bonds (Electric 1991B Bonds), net of \$601 thousand in original issue discount. \$2.56 million of the Electric 1991B Bonds were issued as discount capital appreciation bonds (CAB), which gradually increase in value until maturity. On July 1, 2002, the City exercised the option to redeem \$10.32 million of the Electric 1991B Bonds. The remaining portion of the Electric 1991B Bonds, which is the CAB, will mature serially in 2005, 2006 and 2007. The issue amount, maturity dates, current and future values of the CAB at maturity are as follows:

<b>Issue amount</b>	<b>Maturity date</b>	<b>Value as of June 30, 2005</b>	<b>Value at maturity</b>
\$ 914,793	7/1/2005	\$ 2,090,000	\$ 2,090,000
850,096	7/1/2006	1,954,888	2,080,000
<u>789,208</u>	<u>7/1/2007</u>	<u>1,826,713</u>	<u>2,070,000</u>
<u>\$ 2,554,097</u>		<u>\$ 5,871,601</u>	<u>\$ 6,240,000</u>

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 11 – LONG-TERM OBLIGATIONS (Continued)**

Subordinated Electric Revenue Refunding Bonds, 1998 Series A

On March 1, 1998, the City issued \$89.28 million of the 1998 Subordinated Electric Revenue Refunding Series A Bonds (Electric 1998A Bonds). The Bonds mature annually in serial amounts from July 1, 1998 to July 1, 2027 and bear coupon rates ranging from 4.50% to 5.25%. The Electric 1998A Bonds net proceeds totaling \$86.06 million were deposited into an escrow fund. Principal and interest from the escrow fund were applied to retire \$81.65 million of Electric 1991A Bonds on July 1, 2001. Debt service on the Electric 1998A Bonds is subordinate to the 1985 Series A, B and C Bonds and the Electric 1991B Bonds. Debt service payment is secured by a pledge of net revenues of the Electric Utility Enterprise Fund.

Subordinated Electric Revenue Bonds, 2003 Series A

On October 9, 2003, Silicon Valley Power issued \$100 million of the Subordinated Electric Revenue Bonds, Series 2003A (Electric 2003A Bonds) to finance a portion of the Donald Von Raesfeld Power Plant. The Electric 2003A Bonds mature annually in serial amounts from July 1, 2005 to July 1, 2025 with the final Term Bond maturity of July 1, 2028 and bear coupon rates ranging from 2.50% to 5.25%. Debt service on the Electric 2003A Bonds is subordinate to the 1985 Series A, B and C Bonds and the Electric 1991B Bonds. Debt service on the 2003A Bonds is secured by a pledge of net revenues of the Electric Utility Enterprise Fund.

Subordinated Electric Revenue Bonds, 2003 Series B

On October 9, 2003, Silicon Valley Power issued \$50 million of the Subordinated Electric Revenue Bonds, Series 2003B (Electric 2003B Bonds) to finance a portion of the Donald Von Raesfeld Power Plant. The Electric 2003B Bonds mature annually in serial amounts from July 1, 2028 to July 1, 2034. Coupon rates of the Electric 2003B Bonds are being auctioned every 28 days. Recent auction rates ranged from 3.0% to 4.5%. Debt service on the Electric 2003B is subordinate to the 1985 Series A, B and C Bonds and the Electric 1991B Bonds. Debt service on the 2003B Bonds is secured by a pledge of net revenues of the Electric Utility Enterprise Fund.

Water Recycling Utility

The State Water Resource Control Board Loan was issued for the design and construction of pumping facilities and a pipeline to deliver reclaimed water to the City's golf course. Debt service on the loan is payable from the annual revenues of the Water Recycling Utility Enterprise Fund.

Compliance

Various debt agreements governing the Enterprise Funds' revenue bonds contain a number of covenants, including those that require the City to maintain and preserve the respective enterprise in good repair and working order, to maintain certain levels of insurance and to fix and collect rates, fees and charges so as to maintain certain debt coverage ratios. The City is in compliance with these specific covenants and all other material covenants governing the particular revenue bond issues. No event of default as defined in the bond indentures has occurred, is occurring, or is anticipated to occur.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 11 – LONG-TERM OBLIGATIONS (Continued)**

**E. Repayment Requirements**

As of June 30, 2005, the debt service requirements to maturity for the City's and the Agency's long-term obligations and the funds from which payment will be made are as follows:

For the Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2006	\$ 5,917,728	\$ 11,009,846	\$ 11,144,722	\$ 11,366,738
2007	8,985,000	10,633,585	11,887,319	11,108,581
2008	9,470,000	10,136,162	12,440,021	10,834,252
2009	10,000,000	9,601,412	11,415,329	10,509,080
2010	10,555,000	9,024,229	11,980,000	10,162,400
2011-2015	86,125,000	35,687,443	33,480,000	47,101,134
2016-2020	53,450,000	21,440,596	40,340,000	38,825,067
2021-2025	41,380,000	6,695,182	53,430,000	27,209,895
2026-2030	6,435,000	1,436,250	53,585,000	12,527,813
2031-2035	<u>3,045,000</u>	<u>78,000</u>	<u>41,450,000</u>	<u>2,005,962</u>
Total	<u>\$ 235,362,728</u>	<u>\$ 115,742,705</u>	<u>\$ 281,152,391</u>	<u>\$ 181,650,922</u>

**Reconciliation of Long-term Obligations**

Principal outstanding as reported above	\$ 516,515,119
Deduct unaccreted Electric Bonds 1991 Series B	(368,399)
Deduct unamortized discount/premium- Electric Revenue Bonds	<u>(5,423,656)</u>
Total Long-term Obligations	<u>\$ 510,723,064</u>

**F. Defeasances**

The following is a summary of the refunding issues, the issues defeased, and the remaining principal balance of the defeased debt for the City as of June 30, 2005:

Issue Defeased	Interest Rates on Defeased Issue	Originally Defeased	Balance Outstanding on Defeased Bonds	Refunding Issue
Bayshore North 1992 Tax Allocation & Refunding Bonds	5.60%-5.875%	<u>\$ 34,290,000</u>	<u>\$ 26,235,000</u>	Bayshore North 2002 Tax Allocation & Refunding Bonds

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 11 – LONG-TERM OBLIGATIONS (Continued)**

The proceeds from the above refunding issues are placed in irrevocable escrow accounts overseen by independent bank fiscal agents. These proceeds are generally invested in U. S. Treasury Securities, which together with earned interest, will provide amounts sufficient for future payment of interest, principal, and redemption premium on the defeased bonds. These escrow accounts are not included as assets of the City. The defeased bonds are excluded from the City's long-term obligations because the arrangement satisfies legal requirements of defeasance.

**G. Debt Limitations and Restrictions**

The amounts of the City's legal debt limit and debt margin (as defined by Section 1309 of the City Charter) as of June 30, 2005, are \$2.676 billion and \$2.696 billion respectively. There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations, covenants and restrictions.

**H. Arbitrage**

According to the regulations set forth by the U. S. Treasury Department, for bond issues subject to arbitrage rebate, earnings in excess of the stated bond rate must be rebated to the federal government every five years. As of June 30, 2005, the City has sixteen outstanding bond issues that are subject to the arbitrage rebate regulations. The City monitors the earnings on each of these issues and records any accrued rebate liability at the end of each individual bond year. At fiscal year end 2004-05, the total arbitrage liability for the City and its component units was zero.

**I. Special Assessment Debt without City Commitment**

Special assessment districts have been established in various parts of the City to provide improvements to properties located in those districts. Properties are assessed for the cost of the improvements; these assessments are payable solely by the property owners over the term of the debt issued to finance the improvements. With the exception of the Santa Clara Convention Center Improvement Project No. 186, the City is not legally obligated to pay these debts or be the purchaser of last resort of foreclosed properties in the special assessment districts. Nor is it obligated to advance available City funds to repay this debt in the event of default by any of these districts. At June 30, 2005, the balance of these districts' outstanding debt was as follows:

Issue	Fiscal Year Issued	Interest Rate	Principal Maturities		Outstanding 6/30/2005
			Annual Amount	Fiscal Years Ended	
Mill Creek - District No. 185	1995	5.39%-7.12%	\$ 220,000-365,000	1998-2011	\$ 2,115,000
Traffic Mitigation District 1988-1					
Division No. 2	1996	5.10%-5.90%	220,000-380,000	1998-2012	2,510,000
Mission College/Mercado No. 187	1998	4.25%-5.25%	390,000-600,000	1999-2011	3,635,000
				Total	\$ <u>8,260,000</u>

The City recognizes an obligation to transfer funds from its available funds to cover any delinquency in the assessments for the Santa Clara Convention Center Improvement Project No. 186, primarily because the City owns the land upon which the improvements were made.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 12 – SOLID WASTE LANDFILL CLOSURE**

At June 30, 2005, the balance of the Solid Waste Landfill Postclosure Obligation was as follows:

<u>Type of Indebtedness</u>	<u>Outstanding as of June 30, 2004</u>	<u>Reduction</u>	<u>Outstanding as of June 30, 2005</u>	<u>Current Portion</u>
Solid Waste Landfill Postclosure Obligation	<u>\$ 5,899,995</u>	<u>\$ 245,206</u>	<u>\$ 5,654,789</u>	<u>\$ 170,000</u>

The City of Santa Clara All Purpose Landfill (Landfill) was closed in September 1993. Federal and state laws and regulations require closure activities such as removal of landfill structures, decommissioning of environmental control systems, site security, and final cover construction and postclosure care such as ongoing monitoring of environmental impact. The City's postclosure plan (Plan) accepted by the California Integrated Waste Management Board (CIWMB) addresses all the attendant issues. Based on the Plan and pertaining laws and regulations, an estimated Landfill Postclosure Care Cost Obligation is recorded and updated annually. The postclosure care liability is accrued in the Solid Waste Enterprise Fund in accordance with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*. As of June 30, 2005, the estimated liability totaled \$5.65 million. This obligation is payable from solid waste user fees and any related subsidy from the General Fund.

The City also has a Pledge of Revenue Agreement establishing financial assurance for postclosure maintenance of the Landfill with the CIWMB. As of June 30, 2005, the total pledge amount is \$627 thousand. This amount is reviewed annually and updated for the increase in the San Francisco Bay Region Consumer Price Index.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 13 – PARTICIPATION IN JOINT VENTURES**

**A. Investments in Joint Ventures**

The City participates in significant joint ventures: Northern California Power Agency (NCPA), the Transmission Agency of Northern California (TANC), San Jose-Santa Clara Water Pollution Control Plant and Clean Water Financing Authority (SJSC), MS-R Public Power Agency (MSR), and Silicon Valley Animal Control Authority (SVACA).

The separately issued audited financial statements of these joint ventures (as noted below) are available on request from the joint ventures at the addresses below:

	NCPA	TANC	SJSC
Date of latest audited financial statement	6/30/2004	6/30/2004	6/30/2004
Participant's address	180 Cirby Way Roseville, CA 95678	P.O. Box 15129 Sacramento, CA 95851	200 East Santa Clara Street San Jose, CA 95113
	<u>MSR</u>	<u>SVACA</u>	
Date of latest audited financial statement	12/31/2004	6/30/2004	
Participant's address	P. O. Box 4060 Modesto, CA 95352	2324 Walsh Avenue Santa Clara, CA 95051	

The City's basic financial statements reflect the following investments in joint ventures as of June 30, 2005:

	<u>NCPA</u>	<u>TANC</u>	<u>SJSC</u>	<u>MSR</u>
Participating percentage	36.0%	20.2%	18.6%	35.0%
Investment	\$12,877,355	\$69,044	\$88,475,724	---
Method of accounting	Equity	Equity	Equity	Equity

**B. Contingent Liability**

Under the terms of the various joint venture agreements, the City is contingently liable for a portion of the long-term debt of the entities under take-or-pay agreements, letters of credit, guarantees or other similar agreements. Based on the most recent audited financial statements of the individual joint ventures, the City was contingently liable for long-term debt as follows:

	<u>Total Debt</u>	<u>City's Participating Share</u>	<u>City's Contingent Liability</u>
NCPA	\$756,958,000	36.0%	\$272,504,880
TANC	373,897,847	20.2%	75,527,365
SJSC			
Revolving Fund Loan	56,099,000	18.6%	10,434,414
MSR	423,330,000	35.0%	148,165,500
Total	<u>\$1,610,284,847</u>		<u>\$506,632,159</u>

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 13 – PARTICIPATION IN JOINT VENTURES (Continued)**

In addition, the City would, under certain conditions, be liable to pay a portion of the costs associated with the operations of the entities. Under certain circumstances, such as default or bankruptcy of the other participants, the City may also be liable to pay a portion of the debt of these joint ventures on behalf of those participants and to seek reimbursement from those participants.

**C. Northern California Power Agency (NCPA)**

NCPA was formed in 1968 as a joint powers agency in the State of California. Its membership consists of eleven cities with publicly owned electric utility distribution systems, one irrigation district, one public utility district, one port authority, and four other associate member entities. NCPA is generally empowered to purchase, generate, transmit, distribute and sell electrical energy. Members participate in the projects of NCPA on an elective basis. Therefore, the participation percentage varies for each project in which it participates.

A Commission comprised of one representative for each member governs NCPA. The Commission is responsible for the general management of the affairs, property, and business of NCPA. Under the direction of the General Manager, the staff of NCPA is responsible for providing various administrative, operating and planning services for NCPA and its associated power corporations.

Project Financing and Construction

NCPA's project construction and development programs have been individually financed by project revenue bonds collateralized by NCPA's assignment of all payments, revenues and proceeds associated with its interest in each project. Each project participant has agreed to pay its proportionate share of debt service and other costs of the related project, notwithstanding the suspension, interruption, interference, reduction or curtailment of output from the project for any reason. Certain of the revenue bonds are additionally supported by municipal bond insurance credit enhancements.

Hydroelectric Project

NCPA contracted to finance, manage, construct, and operate Hydroelectric Project Number One for the licensed owner, Calaveras County Water District (CCWD). In exchange, NCPA has the right to the electric output of the project for 50 years from February 1982. NCPA also has an option to purchase power from the project in excess of the CCWD's requirements for the subsequent 50 years, subject to regulatory approval.

Geothermal Project

The NCPA Geothermal Plants have historically experienced greater than anticipated declines in steam production from the existing geothermal wells. Although initially operated as baseload generating projects at full capability (238 MW) by 1988, NCPA changed its steam field production from baseload to load-following and reduced average annual steam production to 150 MW gross. Despite the implementation of operating strategies to further reduce the rate of decline in steam production, including the construction of an effluent pipeline from a neighboring sanitation district, and modifications to the steam turbines and associated steam collection system, the average annual generation for 2004 was 135 MW gross.

Based upon current operating protocols and forecasted operations, NCPA expects average annual generation and peak capacity to decrease further, reaching approximately 104 MW by the year 2015 and remaining in excess of 78 MWG through 2031, the end of the study period.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 13 – PARTICIPATION IN JOINT VENTURES (Continued)**

Combustion Turbine Project No. 1

NCPA owns five dual (natural gas and fuel oil) combustion turbine units, each of which is nominally rated at 25 MW, which are collectively known as the Combustion Turbine Project No. 1. These units were completed in 1986 and are designed to provide peak power and reserve requirements and emergency support. Each purchaser is responsible under its power sales contract for paying entitlement share in Combustion Turbine Project No. 1 of all NCPA's costs of such project.

**D. Transmission Agency of Northern California (TANC)**

TANC was organized under the California Government Code pursuant to a joint powers agreement entered into by 15 Northern California utilities. The purpose of TANC is to provide electric transmission or other facilities for the use of its members through its authority to plan, acquire, construct, finance, operate and maintain facilities for electric power transmission. The joint powers agreement provides that the costs of TANC's activities can be financed or recovered through assessment of its members or from user charges through transmission contracts with its members. Each TANC member has agreed to pay a pro-rata share of the costs to operate TANC and for payment of debt service, and has the right to participate in future project agreements.

The joint powers agreement remains in effect until all debt obligations and interest thereon have been paid, unless otherwise extended by the members.

California-Oregon Transmission Project

TANC is a participant and also the Project Manager of the California-Oregon Transmission Project (Project), a 339-mile long, 500-kilovolt alternating current transmission project between Southern Oregon and Central California. As Project Manager, TANC is responsible for the overall direction and coordination of all Project operations and maintenance, additions and betterments, and for general and administrative support.

The Project was declared commercially operable on March 24, 1993, with a rated transfer capability of 1,600 megawatts and provides a third transmission path between the electric systems of the Pacific Northwest and those in California. The Project has successfully met and completed the major environmental requirements. As of June 30, 2004, the most recent data available, TANC's investment in the Project was \$448.3 million, less accumulated depreciation and amortization of \$113.9 million.

In connection with its participation in the Project, TANC has an entitlement balance of the Project's transfer capability of approximately 1,242 megawatts and is obligated to pay an average of approximately 73% of the operating costs associated with the Project. TANC incurred and initially capitalized all costs for project construction since they were expected to be recovered through reimbursement from Project participants and from the successful operations of the Project's transmission lines. The Project agreement among the participating members provides that each member agrees to make payments, from its revenues, to TANC for project costs incurred and for payment of debt service.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 13 – PARTICIPATION IN JOINT VENTURES (Continued)**

**E. San Jose-Santa Clara Water Pollution Control Plant and Clean Water Financing Authority (SJSC)**

The City and the City of San Jose jointly own the San Jose/Santa Clara Water Pollution Control Plant (Plant). The Plant provides wastewater treatment services to the City, to the City of San Jose, and to seven other tributary agencies. The City of San Jose is the administering agency for the Plant. The San Jose/Santa Clara Clean Water Financing Authority (Authority) was created in 1981 to provide financing for capital improvements to the Plant.

In 1959, the City and the City of San Jose entered into an agreement to construct and operate the Plant. Under the terms of the agreement, the cities own an undivided interest in the Plant and share in the capital and operating costs on a pro rata basis, determined by the ratio of each city's assessed valuation to the sum of both cities assessed valuations. Such percentages are determined annually and applied to the capital and operating costs of the Plant, determined on an accrual basis. For the year ended June 30, 2004, the most recent data available, the City's portion was 18.6%, which is also its interest in the net assets of the Plant.

South Bay Water Recycling Program

The South Bay Water Reclamation Program (SBWRP), a regional water reclamation program, is part of an action plan adopted by the Regional Water Quality Control Board (RWQCB) which limits the Plant on the amount of effluent discharged into San Francisco Bay in order to prevent conversion of salt marsh and destruction of endangered species habitat. Flow limits are not included in the current (2003-2008) 5-year permit from the RWQCB.

According to the approved action plan, SBWRP was required to reclaim 21.10 million gallons per day (MGD) of plant effluent for nonpotable use by November 1, 1997, (Phase I) and an additional 24.30 MGD by December 31, 2000 (Phase 2). The action plan also requires assessment of alternatives for potable reuse, including a potable pilot plant to be coordinated with the Santa Clara Valley Water District. In addition to a habitat preservation, the project reduces the mass trace contaminants discharged to the San Francisco Bay and provides a reliable source of water to offset potable water demands.

The SBWRP distribution system includes approximately 60 miles of pipe, a four million-gallon reservoir, a transmission pump station, and two booster pump stations. These facilities were constructed between 1996 and 1998 at a capital cost of approximately \$141 million funded by the tributary agencies, grants and bond proceeds. The City's share of Phase I costs was approximately \$20.07 million.

Proceeds from the City of San Jose 1995 Series A and B Bonds and other funds were used to pay for the City of San Jose's share of Phase I. The City contributed existing capital reserves, existing water reclamation distribution system, and additional construction. Other sources for funding of Phase I include U. S. Bureau of Reclamation grants, State of California Revolving Fund loans, \$6.45 million transferred in fiscal 1995 from the Clean Water Financing Authority to the City of San Jose Wastewater Treatment Plant Capital Fund, and cash contributions from other participating agencies.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 13 – PARTICIPATION IN JOINT VENTURES (Continued)**

In June 1997, the RWQCB approved the Proposed Revision to the South Bay Action Plan (the Plan), which describes the projects necessary to reduce average dry weather effluent flow from the Plant to below 120 MGD and protect salt marsh habitat for endangered species in the South Bay as required by RWQCB Order 94-117. These projects include expanding the Phase I nonpotable water distribution system by extending additional piping, placing greater emphasis on water conservation programs, reducing infiltration inflow, augmenting stream flow, and creating wetlands. The estimated costs of \$127.5 million would be funded through a combination of State Revolving Fund loans, Equipment Replacement Reserves, Sewage Treatment Plant Connection Fees, federal grants, and cash contributions.

**F. MSR Public Power Agency**

MSR is a joint power agency formed in 1980 by the Modesto Irrigation District, the City and the City of Redding, California, to develop or acquire and manage electric power resources for the benefit of the members. The personnel of its members and contract professional staff perform other administrative and management functions of MSR. The member's income and expense sharing ratio is as follows: Modesto Irrigation District – 50%; City of Santa Clara – 35%; and City of Redding – 15%.

The City's equity in MSR's net losses exceeds its investment and, therefore, the equity method of accounting for the investment has been suspended. As of December 31, 2004, the date of the latest available audited financial statements, the City's unrecognized share of member's deficit of MSR was \$80.99 million. Under the joint exercise of power agreement, which formed MSR, the City is responsible for funding up to 35% of MSR's operating cost, to the extent such funding is necessary. During the year ended June 30, 2005, the City made no contributions to fund its share of operating deficits. If there were such contributions, they would be included in the Electric Utility Enterprise Fund expenses.

MSR's principal activity is a 28.8% ownership interest in a 507 megawatt unit of a coal-fired electricity generating plant located in New Mexico (San Juan Plant). The acquisition of such ownership interest was funded through the issuance of revenue bonds, secured by a pledge and assignment of the net electric revenues of MSR and supported by take-or-pay commitments of the equity participants. MSR is also a participant in the Southwest Transmission Project, a 500 kilovolt alternating current transmission project between Central Arizona and Southern California that provides a firm transmission path for the electric power from the San Juan Plant to the MSR members. The southwest Transmission Project was completed and placed in service in April 1996.

In accordance with an agreement with the Tucson Electric Power Company (TEP), MSR has the right to certain levels of power transmission without charge and without transmission losses between the San Juan Plant in New Mexico and Palo Verde, Arizona through 2025. These rights are being utilized in connection with the delivery of power from the San Juan Plant to the members or to third party purchasers.

**G. Silicon Valley Animal Control Authority**

The City is a member of Silicon Valley Animal Control Authority, (SVACA), established in 2000 to deliver animal control services. SVACA provides its own field services and has an agreement with the Humane Society Silicon Valley to provide animal shelter services comprised of a shelter facility and staffing. SVACA has purchased an existing building in Santa Clara that is being converted to an animal shelter. The shelter is scheduled to open in the third quarter of 2006, when the contract with the Humane Society Silicon Valley for shelter services will be terminated. SVACA is governed by a Board of Directors consisting of representatives from three member cities.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 13 – PARTICIPATION IN JOINT VENTURES (Continued)**

During the fiscal year ended June 30, 2005 the City contributed \$890,632 to SVACA. The City's equity interest in SVACA was \$359,641 at June 30, 2004. Audited financial statements are available from SVACA at 2324 Walsh Avenue, Santa Clara, CA 95051.

**NOTE 14 – RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN)**

**A. Plan Description**

The City contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer defined benefit plan, which is a public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. CalPERS offers a menu of benefit provisions and other requirements that are established by State statutes within the Public Employee Retirement law. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Offices at 400 "P" Street, Sacramento, California 95814.

The City's two defined benefit pension plans (Miscellaneous Plan and Safety Plan) with CalPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. All permanent (full-time and part-time) and eligible "as-needed" hourly City employees are required to participate in CalPERS.

**B. Pension Plan Benefits**

Benefits for employees in the Miscellaneous Plan and Safety Plan vest after five years of CalPERS credited service. The retirement benefits under both plans are based on the retiree's age, years of CalPERS credited service, and a benefit factor of 2% at 55 for miscellaneous plan members and 3% at 50 for safety plan members.

- **Miscellaneous Plan**

Participants in this plan are eligible for service retirement and receive graduated benefits upon attaining the age of 50 and with at least five years of credited service with a CalPERS employer. The service retirement benefit is a monthly allowance equal to the product of the benefit factor (2% at 55), years of service, and final compensation (monthly average of member's highest 12 consecutive months' full-time equivalent monthly pay). The service retirement benefit for this group is not capped.

- **Safety Plan**

Participants in this plan are eligible for service retirement and receive graduated benefits upon attaining the age of 50 and with at least five years of credited service with a CalPERS employer. The service retirement benefit is a monthly allowance equal to the product of the benefit factor (3% at 50), years of service, and final compensation. For Fire Safety employees, the final compensation is the monthly average of member's highest 36 consecutive months' full-time equivalent monthly pay, and for Police Safety employees, it is the monthly average of the member's highest 12 consecutive months' full-time equivalent monthly pay. The service retirement benefit for the Safety Plan group is capped at 90% of final compensation.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 14 – RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN) (Continued)**

**C. Funding Policy**

Permanent employees are required to make contributions to their account. For employees who are covered by formulas modified to coordinate with Social Security, a rate of zero is charged for the first \$133.33 per month. The member employees' contribution rates are set by State statute and therefore remain unchanged from year to year. The rates for fiscal year 2004-05 are:

Category	Member Rates As A Percentage of Wages
Miscellaneous Plan Members	7.00%
Safety Plan:	
Fire Public Safety Members	9.00%
Police Public Safety Members	11.25%

The City is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by CalPERS actuaries and actuarial consultants and adopted by the Board of Administration. The required employer contribution for year ended June 30, 2005 was 8.613% of annual covered payroll for Miscellaneous Plan employees and 25.703% for Safety Plan members (Firefighters and Police Officers). The City's payroll for employees covered by CalPERS for fiscal year ended June 30, 2005 was \$87,120,735 (consisting of \$53,952,204 for Miscellaneous Plan employees and \$33,168,531 for Public Safety Plan employees), out of the total payroll for the City of \$102,651,528.

**D. Annual Pension Cost**

For year ended June 30, 2005 the City's actuarially required contribution rate for safety members was 25.703% and 8.613% for miscellaneous members. The actuarial required contribution rate for safety and miscellaneous for fiscal year 2003-04 was 18.14% for safety members and 2.763% for miscellaneous members and the 2003 actuarial required contribution rate was 7.346% for safety and 0% for miscellaneous members. Therefore, the City incurred \$13,172,210, \$7,818,352 and \$2,536,926 for annual pension cost for fiscal years ended 2005, 2004, and 2003, respectively. The required contribution for year ended June 30, 2005 was determined as part of the June 30, 2003, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The Entry Age Normal Actuarial Cost Method is a projected benefit cost method which takes into account those benefits that are expected to be earned in the future, as well as those already accrued.

According to this cost method, the normal cost for an employee is the level amount that would fund the projected benefit if it were paid annually from the date of employment until retirement. CalPERS uses a modification of the Entry Age Normal Actuarial Cost Method in which the City's total normal cost is expressed as a level percent of payroll. CalPERS also uses the level percentage of projected payroll method to amortize any unfunded actuarial liabilities (or excess assets) on a closed basis over the remaining amortization period. The remaining amortization period at June 30, 2002 was 30 years for the Safety Plan and 30 years for the Miscellaneous Plan.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement for the year ended June 30, 2005 include the following:

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 14 – RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN) (Continued)**

- A rate of return on the investment of present and future assets of 8.25% per year compounded annually.
- Projected salary increases that vary by duration of service ranging from 3.75% to 14.20% for Miscellaneous Plan members, and 3.75% to 14.2% for Safety Plan members.
- Overall payroll growth of 3.75% compounded annually.
- Inflation factor of 3.50% compounded annually.

The Plan's actuarial value (which differs from market value) and funding progress over the most recently available three years are set forth below at their actuarial valuation date of June 30:

**Funded Status of Miscellaneous Plan**

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded/ (Overfunded) as a % of Payroll
6/30/01	\$ 212,471,688	\$ 241,112,153	\$ (28,640,465)	113.5%	\$ 47,327,245	(60.5)%
6/30/02	\$ 230,490,113	\$ 225,036,683	\$ 5,453,430	97.6%	\$ 50,866,740	10.7%
6/30/03	\$ 265,695,242	\$ 226,210,767	\$ 39,484,475	85.1%	\$ 54,982,415	71.8%

**Funded Status of Safety Plan**

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded/ (Overfunded) as a % of Payroll
6/30/01	\$ 302,287,886	\$ 304,950,966	\$ (2,663,080)	100.9%	\$ 29,561,480	(9.0)%
6/30/02	\$ 325,108,376	\$ 283,428,199	\$ 41,680,177	87.2%	\$ 32,851,013	126.9%
6/30/03	\$ 347,909,118	\$ 286,386,614	\$ 61,522,504	82.3%	\$ 35,320,492	174.2%

**NOTE 15 – RETIREMENT PLAN (DEFINED CONTRIBUTION PLAN)**

The City's PARS (Public Agency Retirement System) Plan (Plan) is a compulsory retirement plan that qualifies under Section 401 of the Internal Revenue Code covering City employees who are not members of PERS. Under the provisions of the Plan, the City makes no contributions; however all administrative costs of the plan are funded by the City. The Plan administrator is Phase II Systems. The total assets of the Plan are held in trust for the employees and are not included in the City's assets or equity.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 16 – POST-RETIREMENT BENEFITS**

The City currently operates four retired employee medical-dental or medical only programs. The first program (Program “A”) was established by the City Council in 1981 and applies to employees who retired prior to October 5, 1986 and have an annual family income of less than \$35,000. The second program (Program “B”) was established in August 1987 and is available to all retired employees or annuitants that are enrolled in the PERS Health Insurance Program. The third program (Program “C”) was established in August 2001 and it applies to employees with a minimum of ten years of service with the City and have a family income less than \$56,741 in 2004. A fourth program (Program “D”) was established in December 2003 designed to reimburse retired members with at least 10 years of service up to \$250 per month for qualified expenses.

Program “A”

Program “A” provides for reimbursement of medical insurance premiums for retired employees. The amount is limited to the lowest cost employee-only insurance available to active employees. Additionally, the retired employees are eligible for dental reimbursement up to two-thirds of the amount for active employees (active employees are currently eligible to receive up to fifteen hundred dollars per year). As of June 30, 2005, 24 retirees participated in Program “A”. Reimbursements for medical and dental benefits under this program were \$63,143 and \$7,612, respectively, for the year ended June 30, 2005.

Program “B”

Program “B” allows active City employees, on a bargaining unit basis, to be enrolled in the PERS Health Insurance Program. Under the City’s contract with PERS, in order for the City to be in the program, all retired employees or annuitants must also have the opportunity to be enrolled in the PERS Health Insurance Program. Therefore, the City must make a minimum monthly payment of \$48.40 per retired employee or annuitant. As part of the negotiation process to develop this program, the City agreed to pay the minimum payment on behalf of the retirees or annuitants that retired prior to August 1, 1987.

The minimum payment for retirees or annuitants that retired on or after August 1, 1987 is charged against a fund that is generated from an allocation against active employees total compensation. Currently, the allocation is \$2 per month per employee. As of June 30, 2005, 420 retirees or annuitants participated in Program “B”. The total of minimum monthly payments made by the City for this program on behalf of the retirees and annuitants was \$222,479 for the year ended June 30, 2005.

Program “C”

A new program was established by City Council on August 28, 2001 to reimburse regular employees with a minimum of ten years of City service who retire from the City. A reimbursement up to \$238 per month is available for retirees who have family income less than \$56,741 per year or less (the family income figure is indexed annually per CPI). The total cost for this program is capped at \$876,462 per year. Retirees with family income greater than \$56,741 a year may qualify for \$105 per month, if the funds are available. The payments under this plan for the year ended June 30, 2005 were \$442,018.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 16 – POST RETIREMENT BENEFITS (Continued)**

Program “D”

A new program was established in the Memoranda of Understanding effective December 21, 2003 with each City’s bargaining units to reimburse retired employees with at least 10 years of service up to \$250 per month for qualifying medical expenses. The program is funded by employer contributions. A total of \$253,957 was expended for the year ended June 30, 2005.

**NOTE 17 – DEFERRED COMPENSATION PLAN**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

In applying the provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the City has determined that it is not required to record the assets and associated liabilities of the plan.

**NOTE 18 – ELECTRIC UTILITY - SILICON VALLEY POWER**

**A. Long-term Power Purchase Contracts**

The City purchases wholesale electric power from various participants of the Western Systems Power Pool (WSPP), NCPA, M-S-R Public Power Agency, Pacific Gas & Electric Company, Western Area Power Administration, and other sources to supply the power requirements of the City’s electric utility customers. In addition to the Joint Ventures commitments (see Note 13) the City has fixed price power purchase contracts with a remaining term of four and a half years. A substantial portion of such power has not been delivered and is in dispute. If fully delivered, the cost of such power would have been approximately \$58 million for calendar years 2004 and 2005. The City actively manages the financial risks inherent in these long-term contracts, including the risks arising from the changing spot market prices that move above and below the contract prices and from contract disputes, and believes that there is no significant risk of combined net losses over the term of these contracts. The cost of power is included in enterprise fund materials, services and supplies expense.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 18 – ELECTRIC UTILITY - SILICON VALLEY POWER (Continued)**

**B. Deregulation of the California Electric Industry**

Deregulation Legislation and Direct Access

The passage of AB1890 in 1998 triggered fundamental changes in the structure of the electric industry in California. The essential feature of AB1890 was to allow individual consumers the opportunity to buy energy directly from power producers and marketers, rather than from their local investor owned utility. This was called direct access. Generally, AB1890 provided for creation of the California Power Exchange (Cal PX), which was to be a clearinghouse for energy transactions among investor owned utilities, independent generators and power marketers, who in turn would serve direct access customers. AB 1890 also created the California Independent System Operator (CAISO), which was to manage the state's bulk transmission grid. In addition, investor owned utilities were encouraged to sell a substantial portion of their generating facilities to third parties, which they did. AB1890 further provided for a four-year freeze of investor-owned utility rates and recovery by investor and publicly owned utilities during this four-year period of so-called "stranded costs" arising from what were thought at the time to be uncompetitive generation investments. AB1890 also encouraged, but did not require, municipal utilities to establish direct access programs.

In 1999, the City Council adopted a direct access program that provided for a stranded cost charge, or Competition Transition Charge, subject to legal validation of the City's right to collect such a charge. That validation was secured in 2000, and the City's direct access program was to commence in April 2001.

However, in 2000 and 2001, the price of electricity at the Cal PX became extremely high, and investor-owned utilities were unable to pay for the energy that they needed from the Cal PX. These conditions caused the passage of AB1X by the California legislature, pursuant to which investor owned utilities' energy procurement function was assigned to the California Department of Water Resources. AB1X also suspended direct access for investor-owned utilities, essentially until 2013. Based on this development, the City has deferred implementation of its direct access program.

Other Effects of Restructuring

The deregulation of the electric industry has created a substantially changed market for electricity. Compared to the prior market structure, this market has exhibited increased uncertainty and volatility. In anticipation of this restructured market, the City developed a strategic plan to guide its electric utility's transition efforts into the new environment. As part of the Strategic Plan, the Cost Reduction Account was established to protect ratepayers from rate volatility in future years due to revenue shortfalls or unexpected costs. As of June 30, 2005, the balance in the Cost Reduction Account is \$271.64 million.

The strategic plan is a multi-pronged strategic initiative to address electric generation, transmission and distribution business issues given both the initially anticipated operating environment, and the operating environment that has actually evolved. The City's management believes that the strategic plan has been an effective tool for the electric utility as it has transitioned into the new environment.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 18 – ELECTRIC UTILITY - SILICON VALLEY POWER (Continued)**

Energy Wholesale Trading and Risk Management

SVP participates in the California deregulated wholesale gas and power market. By so doing, SVP engages in the trading of commodity forward contracts (gas and electric energy contracts). Activities during the fiscal year were substantially considered hedging transactions and, as such, have been accounted for using the settlement method of accounting. Accordingly, related gross purchases and sales totaling \$165.79 million and \$170.16 million, respectively, for fiscal year ended June 30, 2005 have been separately reported on the statement of revenues, expenses and changes in net assets. Associated receivable representing delivered but unbilled energy, and corresponding payable amounts totaling \$20.46 million and \$17.99 million, respectively, have been reported in the proprietary funds statement of net assets.

The trading activity exposes SVP to various risks including market, credit and operational risks. Active and effective management of these risks associated with the power trading activity is critical to its continued success and contribution to the entire utility. A Risk Management Committee, separate from the units that create the risk exposures, overseen by a Risk Oversight Committee that reports ultimately to the City Council, administers and monitors compliance with the risk policies and procedures on a regular basis. The City and SVP believe that it has the resource commitment, effective policies and procedures, and is continuing to improve the control structure and oversight for evaluating and controlling the market and credit risks to which it is exposed.

Credit Arrangements

The City and SVP have trading business support deposits and credit arrangements including an \$85 million collateralized credit facility with Bank of America. This letter of credit facility with an expiration date of March 1, 2007 is available to the trading operation as a credit enhancement facility, as necessary. As of June 30, 2005, there was one letter of credit (\$200 thousand) issued to a third party out of the total available standby letter of credit of \$85 million.

The City of Santa Clara electric utility maintains credit policies, procedures, and systems that help mitigate credit risk and minimize overall credit risk exposure. The policies include transacting only with investment grade counterparties, evaluation of potential counterparties' financial condition, and an assignment of credit limits as applicable. These credit limits are established based on risk and return considerations under terms customarily available in the industry. Additionally, SVP is a signatory to the WSPP netting agreement supplement and otherwise, enters into master netting arrangements whenever possible and where appropriate, obtains collateral prior to trade execution. Master netting agreements incorporate rights of setoff that provide for the net settlement of subject contracts with the same counterparty in the event of default.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 18 – ELECTRIC UTILITY - SILICON VALLEY POWER (Continued)**

Provision for Disputed SCS Charges

In November 1999, PG&E filed with the Federal Energy Regulatory Commission (FERC) its Schedule Coordination Services (SCS) Tariff, alleging that PG&E was entitled to collect from Santa Clara and other municipal users certain costs imposed by the ISO on PG&E for the period April 1998 to August 2002. On June 1, 2004, PG&E began billing Santa Clara for these costs. These costs, which were billed over a twelve-month period, accumulated to approximately \$24.0 million, including interest. SVP, in accordance with the SCS Tariff, made the twelve monthly payments into an escrow account.

On May 17, 2005, Santa Clara and PG&E filed with FERC, a settlement in the amount of \$10 million, which, however, is ultimately conditional on the outcome of PG&E's appeal of FERC's Opinions Nos. 458 and 458-A, which prohibited PG&E from seeking recovery of its SCS costs from all of its transmission customers, before the District Court of Appeal for the District of Columbia (D.C. Circuit Court). On May 24, 2005, the City Council approved the settlement. On June 24, 2005, FERC issued an order accepting the settlement.

On July 12, 2005, the D.C. Circuit Court issued an order vacating FERC's Opinions 458 and 458-A and remanded the case to FERC "for further proceedings consistent with the [California Independent System Operator] tariff." Under the terms of the settlement, if FERC issues a new order granting PG&E's motion to assess the SCS charges upon its customers, Santa Clara is entitled to a full refund of the \$10 million settlement; however, if on remand FERC finds that some portion of the SCS charges are yet due from Santa Clara under the SCS tariff, then Santa Clara will not recover the \$10 million amount of the settlement. On August 5, 2005, in accordance with the settlement agreement, SVP submitted the \$10 million payment to PG&E and closed the escrow account.

**NOTE 19 – NET ASSETS/FUND EQUITY**

Net Assets is measured on the full accrual basis, while Fund Balance is measured on the modified accrual basis.

**A Net Assets**

Net Assets is the excess of all the City's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

*Invested in Capital Assets, net of related debt* describes the portion of Net Assets which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

*Restricted* describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include investments in joint ventures, developer fees received for use on capital projects, debt service requirements, redevelopment funds restricted to low and moderate income purposes.

*Unrestricted* describes the portion of Net Assets which is not restricted as to use.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 19 – NET ASSETS/FUND EQUITY (Continued)**

**B. Fund Balances/Net Assets, Reserves and Designations**

Fund equity consists of reserved and unreserved amounts. Reserved fund equity represents that portion of a fund balance or net assets that has been encumbered or is legally segregated for a specific future use. A reservation of net assets represents contractual obligations. The remaining portion is unreserved.

A portion of unreserved fund balance may be designated to indicate the City Council's plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans are subject to change and the appropriations might not ever be legally authorized or result in expenditures.

**C. Net Asset/Fund Balance Deficits**

The funds listed below had an accumulated deficit as of June 30, 2005:

Fund Name	Accumulated Deficit
Enterprise Fund: Solid Waste	\$ 2,835,507
Internal Service Fund: Workers' Compensation Insurance Claims	8,034,540

The Solid Waste Enterprise Fund accumulated deficit is the result of the unfunded post closure liability associated with the closure of the City's Landfill. It is anticipated that future earnings and transfers will be sufficient to meet the City's post closure obligation. The Workers Compensation Insurance Claims' Internal Service Fund accumulated deficit is expected to be offset by future charges to the General Fund and the proprietary funds.

**NOTE 20 – RISK MANAGEMENT**

**A. Normal Course of Business**

The City is exposed to various risks of losses related to torts, errors and omissions, general liability, injuries to employees and unemployment claims. The City currently reports all of its risk management activities in its Internal Service Funds. Claims, expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated using actuarial methods or other estimating techniques. These losses include an estimate of claims that have been incurred but not reported. As of June 30, 2005, the amount of these liabilities was \$9,695,280.

This liability is the City's best estimate based upon available information which is included in accrued liabilities.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 20 – RISK MANAGEMENT (Continued)**

Changes in the reported liability since June 30, 2005 resulted from the following:

	Special Liability	Workers' Compensation	Total
Liability as of June 30, 2003	\$ 508,265	\$ 8,171,857	\$ 8,680,122
Claims and changes in estimates during fiscal year 2003-04	507,321	3,921,865	4,429,186
Claim payments	<u>(761,224)</u>	<u>(3,393,687)</u>	<u>(4,154,911)</u>
Liability as of June 30, 2004	254,362	8,700,035	8,954,397
Claims and changes in estimates during fiscal year 2004-05	1,170,254	4,064,968	5,235,222
Claim payments	<u>(1,142,085)</u>	<u>(3,352,254)</u>	<u>(4,494,339)</u>
Liability as of June 30, 2005	<u>\$ 282,531</u>	<u>\$ 9,412,749</u>	<u>\$ 9,695,280</u>

With respect to the Special Liability accrual of \$282,531 the City has numerous unsettled lawsuits filed or claims asserted against it as of June 30, 2005. The City Attorney has reviewed these claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the City and to arrive at an estimate of the amount or ranges of potential loss to the City. As a result of such review, the City Attorney has categorized the various claims and lawsuits as “probable,” “reasonably possible,” and “remote” loss contingencies, as defined in SFAS No. 5, *Accounting for Contingencies*.

The City Attorney has determined that the City's probable loss contingencies, which are accrued for as the estimated liability for claims and lawsuits as of June 30, 2005, are approximately \$282,531. The final outcome of claims and lawsuits, which have been categorized as reasonably possible loss contingencies, is not presently determinable and any associated potential loss cannot be estimated. Accordingly, no provision has been made in the accompanying basic financial statements relative to the potential outcome of such claims and lawsuits. However, the ultimate resolution of such claims and lawsuits is not expected to have a material effect on the accompanying basic financial statements.

**B. Enron Claim**

The City's Electric Utility Fund had a Master Agreement with Enron Power Marketing, Inc. beginning in September 1999 covering short and long term energy trading commitments and transactions. Pursuant to the Master Agreement, the City engaged in multiple short term energy transactions with Enron from September 1999 through early December 2001 and entered into two long-term agreements for the purchase of energy, one ending in 2006 and the other in 2009. The short term transactions included both sales and purchases of energy between the City and Enron.

On December 2, 2001, Enron filed for bankruptcy in New York. Within a month, Enron ceased making any deliveries of energy to the City. In July 2002, Enron filed an adversary proceeding against the City claiming the City had breached the Master Agreement. Enron claims the City failed to pay for energy purchases from Enron when payment was due and that the City failed to provide Enron with the collateral Enron demanded shortly before it filed for bankruptcy. Enron alleged that it is permitted to claim “in excess of \$100 million” from the City as “Early Termination Damages” under the Master Agreement. The City has answered Enron, asserting thirty-four defenses and requesting a jury trial. The City believes that it possesses meritorious defenses to the claims asserted by Enron. In 2003, proceedings at the Bankruptcy Court were stayed for dozens of wholesale trading cases while a court-ordered mediation process was enacted. The City participated in two mediation sessions under Bankruptcy Court's oversight, without result at this time.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**NOTE 20 – RISK MANAGEMENT (Continued)**

The Federal Energy Regulatory Commission (FERC) is conducting a Gaming and Partnership Proceeding in which Enron is the only remaining Respondent. In that Proceeding, the Commission is investigating 1) all evidence relevant to Enron's conduct that violated or may have violated Commission tariffs or orders, and 2) all of Enron's wholesale power sales in the Western Interconnect for the period January 16, 1997 to June 25, 2003. In July 2004, the City also filed its own Complaint at the FERC against Enron under Section 206 of the Federal Power Act seeking a determination that 1) Enron's purported termination of the Santa Clara contract is void due to its failure to provide notice of cancellation under Section 205 of the Federal Power Act and that 2) due to its numerous violations of FERC orders and the Federal Power Act, and Enron's misrepresentations, the totality of circumstances prohibit Enron from collecting Early Termination Damages because they are unjust and unreasonable, and not in the public interest.

More recently, Section 1290 of the Energy Policy Act of 2005 ("the Cantwell Amendment") gives exclusive jurisdiction to FERC to determine termination payment disputes. FERC has begun a settlement process between Enron, the City, and other similarly situated wholesale trading counterparties. FERC has ordered a stay of all proceedings at FERC and at the Bankruptcy Court to allow the settlement process to proceed. No resolution has yet been reached in any forum at this time.

**NOTE 21 – COMMITMENTS AND CONTINGENCIES**

The City has future commitments under construction projects as detailed in Note 10A, electricity purchase contracts as discussed in Note 18A, and is contingently liable under joint venture agreements discussed in Note 13B.

The City also participates in several federal and state grant programs. In accordance with the provisions of the federal Single Audit Act, Office of Management and Budget Circular A-133, and applicable State requirements, the City's independent certified public accountants have audited these programs. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

## **1 – BUDGETS AND BUDGETARY ACCOUNTING**

The results of operations are presented in the budget and actual comparison statement in accordance with the budgetary process (budgetary basis) to provide a meaningful comparison with the budget.

The major differences between the budgetary basis actual and GAAP basis actual are as follows:

- Year-end encumbrances are recognized as the equivalent of expenditures in the budgetary basis financial statements, while encumbered amounts are not recognized as expenditures on the GAAP basis until the liability is incurred.
- Expenditures of prior year encumbrances are recognized on the GAAP basis in the current year, while on the budgetary basis prior year encumbrances were recognized in the prior year.
- Accrued liabilities and compensated absences are recognized on the GAAP basis, while the budgetary basis does not recognize accrued liabilities.
- Revenues considered susceptible to accrual on the GAAP basis are not recognized on the budgetary basis until received.
- Increases to certain GAAP basis advances to other funds are treated as expenditures for budgetary purposes, and repayments of such GAAP basis advances are treated as revenues in the budgetary basis financial statements.
- Component units and proprietary funds included in the City's basic financial statements, for which no annual budgets are prepared, are excluded from the budgetary basis financial statements.

**CITY OF SANTA CLARA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)  
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes:				
Sales	\$ 35,239,000	\$ 35,239,000	\$ 37,076,578	\$ 1,837,578
Ad valorem	16,271,000	16,271,000	19,934,513	3,663,513
Transient occupancy	7,106,000	7,106,000	7,795,616	689,616
Other	3,043,000	3,043,000	3,901,813	858,813
Licenses, permits, fines and penalties	4,405,000	4,435,000	5,141,761	706,761
Intergovernmental	6,238,908	6,382,414	2,279,586	(4,102,828)
Charges for services	11,124,000	11,525,181	13,325,909	1,800,728
Contributions in-lieu of taxes	12,179,487	12,179,487	11,992,617	(186,870)
Interest and rents	10,256,637	10,279,894	9,290,340	(989,554)
Other	199,000	255,000	198,348	(56,652)
	<u>106,062,032</u>	<u>106,715,976</u>	<u>110,937,081</u>	<u>4,221,105</u>
Total Revenues				
<b>EXPENDITURES</b>				
Current:				
General government:				
General Administration:				
Salary & benefits	2,823,255	2,939,455	2,936,232	3,223
Material, service & supplies	9,135,232	9,678,086	9,678,052	34
Internal service fund charges	93,047	93,047	93,047	-
	<u>12,051,534</u>	<u>12,710,588</u>	<u>12,707,331</u>	<u>3,257</u>
Total General Administration				
City Clerk:				
Salary & benefits	411,803	433,803	432,644	1,159
Material, service & supplies	277,010	234,066	234,013	53
Internal service fund charges	3,583	3,583	3,583	-
	<u>692,396</u>	<u>671,452</u>	<u>670,240</u>	<u>1,212</u>
Total City Clerk				
City Attorney:				
Salary & benefits	884,183	979,040	969,341	9,699
Material, service & supplies	65,140	31,062	27,191	3,871
Internal service fund charges	5,933	5,933	5,933	-
Capital outlay	-	-	-	-
	<u>955,256</u>	<u>1,016,035</u>	<u>1,002,465</u>	<u>13,570</u>
Total City Attorney				
Human Resources:				
Salary & benefits	1,316,150	1,383,050	1,377,745	5,305
Material, service & supplies	275,725	248,588	248,532	56
Internal service fund charges	8,761	8,761	8,761	-
Capital outlay	-	3,341	3,341	-
	<u>1,600,636</u>	<u>1,643,740</u>	<u>1,638,379</u>	<u>5,361</u>
Total Human Resources				

**CITY OF SANTA CLARA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)  
FOR THE YEAR ENDED JUNE 30, 2005**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Finance:				
Salary & benefits	4,931,820	5,128,020	5,122,204	5,816
Material, service & supplies	722,186	725,379	725,335	44
Internal service fund charges	74,060	74,060	74,060	-
Total Finance	5,728,066	5,927,459	5,921,599	5,860
Total General Government	21,027,888	21,969,274	21,940,014	29,260
Public Works:				
Salary & benefits	10,204,323	10,437,723	10,418,264	19,459
Material, service & supplies	2,192,666	2,167,546	2,154,648	12,898
Internal service fund charges	816,445	816,445	816,445	-
Capital outlay	-	50,000	45,110	4,890
Total Public Works	13,213,434	13,471,714	13,434,467	37,247
Parks and Recreation:				
Salary & benefits	8,106,622	7,963,022	7,960,332	2,690
Material, service & supplies	1,587,715	1,872,316	1,872,245	71
Internal service fund charges	365,772	365,772	365,772	-
Total Parks and Recreation	10,060,109	10,201,110	10,198,349	2,761
Public Safety:				
Police:				
Salary & benefits	27,405,808	26,995,933	26,987,498	8,435
Material, service & supplies	1,477,869	2,063,509	1,461,141	602,368
Internal service fund charges	1,829,528	1,829,528	1,829,528	-
Capital outlay	-	5,400	5,326	74
Total Police	30,713,205	30,894,370	30,283,493	610,877
Fire:				
Salary & benefits	25,382,811	25,527,084	25,517,785	9,299
Material, service & supplies	699,970	797,509	608,425	189,084
Internal service fund charges	1,312,784	1,312,784	1,312,784	-
Capital outlay	13,400	49,764	20,160	29,604
Total Fire	27,408,965	27,687,141	27,459,154	227,987
Communications:				
Salary & benefits	2,857,671	2,812,071	2,809,950	2,121
Material, service & supplies	979,205	964,838	964,792	46
Internal service fund charges	56,506	56,506	56,506	-
Total Communications	3,893,382	3,833,415	3,831,248	2,167

(Continued)

**CITY OF SANTA CLARA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)  
FOR THE YEAR ENDED JUNE 30, 2005**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Planning & Inspection:				
Salary & benefits	4,239,384	4,471,784	4,465,183	6,601
Material, service & supplies	612,380	704,789	704,739	50
Internal service fund charges	66,515	66,515	66,515	-
Total Planning & Inspection	4,918,279	5,243,088	5,236,437	6,651
Total Public Safety	66,933,831	67,658,014	66,810,332	847,682
Library:				
Salary & benefits	4,791,143	5,057,043	5,050,413	6,630
Material, service & supplies	1,182,935	1,997,669	1,414,690	582,979
Internal service fund charges	84,424	84,424	84,424	-
Total Library	6,058,502	7,139,136	6,549,527	589,609
Total Expenditures	117,293,764	120,439,248	118,932,689	1,506,559
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(11,231,732)	(13,723,272)	(7,995,608)	5,727,664
OTHER FINANCING SOURCES (USES)				
Transfers in	7,940,476	7,956,018	14,020,395	6,064,377
Transfers (out)	(13,255,200)	(16,083,227)	(16,083,227)	-
Sale of capital assets	-	15,792	407,784	391,992
Total Other Financing Sources (Uses)	(5,314,724)	(8,111,417)	(1,655,048)	6,456,369
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(16,546,456)	(21,834,689)	(9,650,656)	<u>\$ 12,184,033</u>
ADJUSTMENTS TO BUDGETARY BASIS:				
Expenditures of prior year encumbrances recognized on the GAAP basis			1,904,016	
Current year encumbrances recognized on the budgetary basis			(2,542,309)	
Net change in receivables recognized on the GAAP basis			(731,647)	
Net change in accrued liabilities recognized on the GAAP basis			119,626	
Fund balance - July 1, as Restated	89,749,529	89,749,529	89,749,529	
Fund balance - June 30	<u>\$ 73,203,073</u>	<u>\$ 67,914,840</u>	<u>\$ 78,848,559</u>	

NON-MAJOR GOVERNMENTAL FUNDS
------------------------------

#### GAS TAX

The fund accounts for revenues and expenditures received from the State under Street and Highways Codes Sections 2105 (Gas Tax 2105), 2106 (Collier-Unruh) and 2107 (Special Gas Tax). The allocations must be spent for street maintenance or construction and a limited amount for engineering.

#### COMMUNITY ACTIVITIES

This fund accounts for fees and expenses related to certain special recreation activity programs for adults (including seniors), and teens.

#### HUD PROGRAMS

This fund accounts for grant funds received from other governmental agencies for the purpose of developing viable urban communities.

#### MAINTENANCE

This fund accounts for the maintenance of two Parking Districts located near the City's Convention Center and the downtown area. Funds are received by means of a Special Benefit Assessment levied against the property owners in the respective districts.

#### OPERATING GRANTS FUND

This fund accounts for grant funds received from other governmental agencies for various operating activities.

#### SPECIAL ASSESSMENTS

This fund accumulates monies for payment of Special Assessment bonds which are financed by assessments placed on the County tax roll.

#### PUBLIC FACILITIES FINANCING CORPORATION

This fund accumulates monies for the repayment of Certificates of Participation which are financed by lease payments made by the City's General Fund to the PFFC for use of the Police Administration Building site.

#### GENERAL GOVERNMENT

This fund accumulates monies for the payment of General Government long-term obligations which are financed by various General Fund revenues.

#### PARKS AND RECREATION FACILITIES

This fund was established to account for revenues, contributions and reimbursements received and costs incurred in connection with the acquisition and construction of the City parks.

#### STREET AND HIGHWAYS IMPROVEMENT

This fund is used to account for revenues and expenditures related to road construction and traffic improvements.

NON-MAJOR GOVERNMENTAL FUNDS (Continued)
--

#### STORM DRAIN IMPROVEMENT

This fund is used to account for revenues and expenditures related to the construction or modification of the City's storm drainage system.

#### FIRE DEPARTMENT IMPROVEMENT

This fund is used to account for revenues and expenditures related to the construction or modifications of City fire stations.

#### LIBRARY DEPARTMENT IMPROVEMENTS

This fund is used to account for revenues and expenditures related to the construction or modification of the City's library facilities.

#### PUBLIC BUILDINGS

This fund is used to account for revenues and expenditures related to the construction, acquisition or modification of public improvements not accounted for in another Capital Project Fund.

#### STREET BEAUTIFICATION

This fund is used to account for revenues and expenditures related to the landscaping of City streets.

#### SPECIAL ASSESSMENTS

Includes Special Assessment District funds used to finance public improvements deemed to benefit the properties against which special assessments are made.

#### PERPETUAL CARE FUND AND ENDOWMENT FUND

These funds account for cemetery maintenance funded by plot owners.

#### CHARITABLE TRUST FUND

This fund accounts for the various gifts, donations and bequests received by the City.

**CITY OF SANTA CLARA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2005**

	SPECIAL REVENUE FUNDS			
	Gas Tax	Community Activities	HUD Programs	Maintenance
<b>ASSETS</b>				
Cash and investments:				
Pooled cash and investments	\$ 9,708,953	\$ 853,629	\$ 208,360	\$ 500,427
Investments with fiscal agent - current	-	-	-	-
Cash designated for construction	-	-	-	35,604
Receivables (net of allowance for uncollectibles):				
Accounts	-	17,941	-	-
Interest	-	-	-	-
Loans	-	-	10,694,188	-
Special assessments	-	-	-	-
Intergovernmental	176,959	-	2,443,124	-
Due from other funds	-	-	-	9,884
Investment in joint ventures	-	-	-	-
Investments with fiscal agent - noncurrent	-	-	-	-
<b>Total Assets</b>	<b>\$ 9,885,912</b>	<b>\$ 871,570</b>	<b>\$ 13,345,672</b>	<b>\$ 545,915</b>
<b>LIABILITIES</b>				
Accrued liabilities	\$ 191,418	\$ 10,096	\$ 42,714	\$ 34,594
Due to other funds	-	-	87,391	-
Deferred revenue	-	23,495	12,956,598	-
<b>Total Liabilities</b>	<b>191,418</b>	<b>33,591</b>	<b>13,086,703</b>	<b>34,594</b>
<b>FUND EQUITY</b>				
Reserved for encumbrances	115,000	7,292	18,834	-
Reserved for debt service	-	-	-	-
Unreserved:				
Designated for capital projects	9,402,535	-	-	35,604
Undesignated	176,959	830,687	240,135	475,717
<b>Total Fund Balances</b>	<b>9,694,494</b>	<b>837,979</b>	<b>258,969</b>	<b>511,321</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 9,885,912</b>	<b>\$ 871,570</b>	<b>\$ 13,345,672</b>	<b>\$ 545,915</b>

Operating Grants Fund	DEBT SERVICE FUNDS			CAPITAL PROJECTS FUNDS		
	Special Assessment	Public Facilities Financing Corp.	General Government	Parks and Recreation Facilities	Streets and Highways Improvement	Storm Drain Improvement
\$ 168,350	\$ 2,729,172	\$ 496,685	\$ 819,782	\$ 13,290,711	\$ 12,691,593	\$ 2,784,697
-	-	302	196	-	-	-
-	-	-	-	-	4,246,996	-
31,919	-	-	-	-	-	4,232
-	-	29,274	27,868	-	-	-
-	-	-	-	-	-	-
-	5,875,000	-	-	-	-	-
192,538	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	3,003,577	3,442,907	-	-	-
<u>\$ 392,807</u>	<u>\$ 8,604,172</u>	<u>\$ 3,529,838</u>	<u>\$ 4,290,753</u>	<u>\$ 13,290,711</u>	<u>\$ 16,938,589</u>	<u>\$ 2,788,929</u>
\$ 40,719	\$ -	\$ -	\$ -	\$ 2,025,301	\$ 450,868	\$ 29,521
-	-	-	-	-	-	-
-	5,875,000	-	-	-	-	-
<u>40,719</u>	<u>5,875,000</u>	<u>-</u>	<u>-</u>	<u>2,025,301</u>	<u>450,868</u>	<u>29,521</u>
30,397	-	-	-	10,136,762	822,164	85,370
-	2,729,172	3,529,838	4,290,753	-	-	-
-	-	-	-	1,128,648	15,665,557	2,674,038
321,691	-	-	-	-	-	-
<u>352,088</u>	<u>2,729,172</u>	<u>3,529,838</u>	<u>4,290,753</u>	<u>11,265,410</u>	<u>16,487,721</u>	<u>2,759,408</u>
<u>\$ 392,807</u>	<u>\$ 8,604,172</u>	<u>\$ 3,529,838</u>	<u>\$ 4,290,753</u>	<u>\$ 13,290,711</u>	<u>\$ 16,938,589</u>	<u>\$ 2,788,929</u>

(Continued)

**CITY OF SANTA CLARA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2005**

	CAPITAL PROJECTS FUNDS			
	<u>Fire Department Improvement</u>	<u>Library Department Improvements</u>	<u>Public Buildings</u>	<u>Street Beautification</u>
<b>ASSETS</b>				
Cash and investments:				
Pooled cash and investments	\$ 3,170,994	\$ 1,892,432	\$ 14,747,325	\$ 124,758
Investments with fiscal agent - current	-	-	-	-
Cash designated for construction	-	-	-	-
Receivables (net of allowance for uncollectibles):				
Accounts	-	-	-	-
Interest	-	-	-	-
Loans	-	-	-	-
Special assessments	-	-	-	-
Intergovernmental	-	-	-	-
Due from other funds	-	-	-	-
Investment in joint ventures	-	-	-	-
Investments with fiscal agent - noncurrent	-	-	-	-
Total Assets	<u>\$ 3,170,994</u>	<u>\$ 1,892,432</u>	<u>\$ 14,747,325</u>	<u>\$ 124,758</u>
<b>LIABILITIES</b>				
Accrued liabilities	\$ 312,741	\$ 94,852	\$ 989,007	\$ 7,615
Due to other funds	-	-	1,191,995	-
Deferred revenue	-	-	-	-
Total Liabilities	<u>312,741</u>	<u>94,852</u>	<u>2,181,002</u>	<u>7,615</u>
<b>FUND EQUITY</b>				
Reserved for encumbrances	2,186,509	-	521,479	-
Reserved for debt service	-	-	-	-
Unreserved:				
Designated for capital projects	671,744	1,797,580	12,044,844	117,143
Undesignated	-	-	-	-
Total Fund Balances	<u>2,858,253</u>	<u>1,797,580</u>	<u>12,566,323</u>	<u>117,143</u>
Total Liabilities and Fund Balances	<u>\$ 3,170,994</u>	<u>\$ 1,892,432</u>	<u>\$ 14,747,325</u>	<u>\$ 124,758</u>

PERMANENT FUNDS				
Special Assessment	Perpetual Care	Endowment Fund	Charitable Trust	Total Nonmajor Governmental Funds
\$ 917,765	\$ 38,244	\$ 876,499	\$ 3,074,775	\$ 69,095,151
-	-	-	-	498
-	-	-	-	4,282,600
-	-	-	-	54,092
-	-	-	12,608	69,750
-	-	-	-	10,694,188
-	-	-	-	5,875,000
-	-	-	-	2,812,621
-	-	-	-	9,884
-	-	-	-	-
-	-	-	-	6,446,484
<u>\$ 917,765</u>	<u>\$ 38,244</u>	<u>\$ 876,499</u>	<u>\$ 3,087,383</u>	<u>\$ 99,340,268</u>
\$ -	\$ -	\$ -	\$ -	\$ 4,229,446
-	-	-	-	1,279,386
-	-	-	-	18,855,093
-	-	-	-	24,363,925
-	-	-	-	13,923,807
-	-	-	-	10,549,763
917,765	-	-	-	44,455,458
-	38,244	876,499	3,087,383	6,047,315
<u>917,765</u>	<u>38,244</u>	<u>876,499</u>	<u>3,087,383</u>	<u>74,976,343</u>
<u>\$ 917,765</u>	<u>\$ 38,244</u>	<u>\$ 876,499</u>	<u>\$ 3,087,383</u>	<u>\$ 99,340,268</u>

**CITY OF SANTA CLARA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2005**

	SPECIAL REVENUE FUNDS				
	Gas Tax	Community Activities	HUD Programs	Maintenance	Operating Grants Fund
REVENUES					
Taxes:					
Other	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	2,060,462	85,049	1,646,750	-	726,681
Charges for services	-	510,078	-	847,059	86,929
Interest and rents	392,861	-	-	28,828	510
Other	825	95,314	386,715	-	-
Total Revenues	<u>2,454,148</u>	<u>690,441</u>	<u>2,033,465</u>	<u>875,887</u>	<u>814,120</u>
EXPENDITURES					
Current					
General Administration	-	758,152	2,173,516	-	-
Public Works	586,991	-	-	1,392,297	-
Parks and Recreation	-	-	-	-	-
Public safety:					
Police	-	-	-	-	372,365
Fire	-	-	-	-	224,262
Library	-	-	-	-	243,991
Capital outlay	819,209	-	223,202	-	66,515
Debt service					
Principal payments	-	-	-	-	-
Interest and fiscal fees	-	-	-	-	-
Total Expenditures	<u>1,406,200</u>	<u>758,152</u>	<u>2,396,718</u>	<u>1,392,297</u>	<u>907,133</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,047,948</u>	<u>(67,711)</u>	<u>(363,253)</u>	<u>(516,410)</u>	<u>(93,013)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	780,933	654,196	68,972
Transfers (out)	(515,000)	(7,338)	(665,912)	-	-
Total Other Financing Sources (Uses)	<u>(515,000)</u>	<u>(7,338)</u>	<u>115,021</u>	<u>654,196</u>	<u>68,972</u>
Net change in fund balances	532,948	(75,049)	(248,232)	137,786	(24,041)
Fund balances at the beginning of period	9,161,546	913,028	507,201	373,535	376,129
FUND BALANCES AT END OF PERIOD	<u>\$ 9,694,494</u>	<u>\$ 837,979</u>	<u>\$ 258,969</u>	<u>\$ 511,321</u>	<u>\$ 352,088</u>

**CITY OF SANTA CLARA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2005**

	DEBT SERVICE FUNDS			CAPITAL PROJECTS FUNDS		
	Special Assessment	Public Facilities Financing Corp.	General Government	Parks and Recreation Facilities	Streets and Highways Improvement	Storm Drain Improvement
REVENUES						
Taxes:						
Other	\$ 1,162,753	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	281,474	104,636	-
Charges for services	-	-	-	-	494,247	128,334
Interest and rents	52,221	58,977	37,119	-	455,692	-
Other	-	-	341,141	25,677	20,202	248,466
Total Revenues	<u>1,214,974</u>	<u>58,977</u>	<u>378,260</u>	<u>307,151</u>	<u>1,074,777</u>	<u>376,800</u>
EXPENDITURES						
Current						
General Administration	-	-	-	-	-	-
Public Works	-	-	-	-	124,332	201,108
Parks and Recreation	-	-	-	3,772	-	-
Public safety:						
Police	-	-	-	-	-	-
Fire	-	-	-	-	-	-
Library	-	-	-	-	-	-
Capital outlay	-	-	-	2,845,511	1,816,138	134,480
Debt service						
Principal payments	790,000	950,000	2,335,000	-	-	-
Interest and fiscal fees	357,123	1,894,413	1,178,238	-	-	-
Total Expenditures	<u>1,147,123</u>	<u>2,844,413</u>	<u>3,513,238</u>	<u>2,849,283</u>	<u>1,940,470</u>	<u>335,588</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>67,851</u>	<u>(2,785,436)</u>	<u>(3,134,978)</u>	<u>(2,542,132)</u>	<u>(865,693)</u>	<u>41,212</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	2,762,411	3,137,294	180,000	-	150,000
Transfers (out)	-	-	-	(4,724,073)	-	(73,265)
Total Other Financing Sources (Uses)	<u>-</u>	<u>2,762,411</u>	<u>3,137,294</u>	<u>(4,544,073)</u>	<u>-</u>	<u>76,735</u>
Net change in fund balances	67,851	(23,025)	2,316	(7,086,205)	(865,693)	117,947
Fund balances at the beginning of period	<u>2,661,321</u>	<u>3,552,863</u>	<u>4,288,437</u>	<u>18,351,615</u>	<u>17,353,414</u>	<u>2,641,461</u>
FUND BALANCES AT END OF PERIOD	<u>\$ 2,729,172</u>	<u>\$ 3,529,838</u>	<u>\$ 4,290,753</u>	<u>\$ 11,265,410</u>	<u>\$16,487,721</u>	<u>\$ 2,759,408</u>

**CITY OF SANTA CLARA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2005**

	CAPITAL PROJECTS FUNDS				
	Fire Department Improvement	Library Department Improvements	Public Buildings	Street Beautification	Special Assessment
REVENUES					
Taxes:					
Other	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	218,952	-	-
Charges for services	-	-	-	-	-
Interest and rents	-	-	-	-	21,932
Other	6,051	-	-	-	-
Total Revenues	6,051	-	218,952	-	21,932
EXPENDITURES					
Current					
General Administration	-	-	4,538,189	-	-
Public Works	-	-	-	-	5,640
Parks and Recreation	-	-	-	-	-
Public safety:					
Police	-	-	-	-	-
Fire	91,498	-	-	-	-
Library	-	-	-	-	-
Capital outlay	629,121	934,323	1,879,251	77,686	-
Debt service					
Principal payments	-	-	-	-	-
Interest and fiscal fees	-	-	-	-	-
Total Expenditures	720,619	934,323	6,417,440	77,686	5,640
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(714,568)	(934,323)	(6,198,488)	(77,686)	16,292
OTHER FINANCING SOURCES (USES)					
Transfers in	2,722,000	345,000	4,263,429	35,000	-
Transfers (out)	(1,169,102)	(127,420)	(12,418)	(267,645)	-
Total Other Financing Sources (Uses)	1,552,898	217,580	4,251,011	(232,645)	-
Net change in fund balances	838,330	(716,743)	(1,947,477)	(310,331)	16,292
Fund balances at the beginning of period	2,019,923	2,514,323	14,513,800	427,474	901,473
FUND BALANCES AT END OF PERIOD	\$ 2,858,253	\$ 1,797,580	\$ 12,566,323	\$ 117,143	\$ 917,765

**CITY OF SANTA CLARA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2005**

	PERMANENT FUNDS			Total Nonmajor Governmental Funds
	Perpetual Care	Endowment Fund	Charitable Trust	
REVENUES				
Taxes:				
Other	\$ -	\$ -	\$ -	\$ 1,162,753
Intergovernmental	-	-	-	5,124,004
Charges for services	-	29,494	-	2,096,141
Interest and rents	1,674	37,690	156,372	1,243,876
Other	-	-	-	1,124,391
Total Revenues	1,674	67,184	156,372	10,751,165
EXPENDITURES				
Current				
General Administration	-	-	132,299	7,602,156
Public Works	-	-	-	2,310,368
Parks and Recreation	-	-	-	3,772
Public safety:				
Police	-	-	-	372,365
Fire	-	-	-	315,760
Library	-	-	-	243,991
Capital outlay	-	-	-	9,425,436
Debt service				
Principal payments	-	-	-	4,075,000
Interest and fiscal fees	-	-	-	3,429,774
Total Expenditures	-	-	132,299	27,778,622
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,674	67,184	24,073	(17,027,457)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	15,099,235
Transfers (out)	(1,674)	(37,690)	-	(7,601,537)
Total Other Financing Sources (Uses)	(1,674)	(37,690)	-	7,497,698
Net change in fund balances	-	29,494	24,073	(9,529,759)
Fund balances at the beginning of period	38,244	847,005	3,063,310	84,506,102
FUND BALANCES AT END OF PERIOD	\$ 38,244	\$ 876,499	\$ 3,087,383	\$ 74,976,343

**CITY OF SANTA CLARA  
SPECIAL REVENUE MAINTENANCE FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)  
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Budget</u>	<u>Actual Amount Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES</b>			
Charges for services	\$ 678,579	\$ 847,059	\$ 168,480
Interest and rents	-	28,828	28,828
Total Revenues	<u>678,579</u>	<u>875,887</u>	<u>197,308</u>
<b>EXPENDITURES</b>			
Current:			
Public works			
Salary & benefits	97,049	86,099	10,950
Material, service & supplies	1,283,481	1,250,651	32,830
Internal service fund charges	42,880	47,630	(4,750)
Total Public Works	<u>1,423,410</u>	<u>1,384,380</u>	<u>39,030</u>
Total Expenditures	<u>1,423,410</u>	<u>1,384,380</u>	<u>(39,030)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(744,831)</u>	<u>(508,493)</u>	<u>236,338</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	<u>652,488</u>	<u>654,196</u>	<u>1,708</u>
Total Other Financing Sources (Uses)	<u>652,488</u>	<u>654,196</u>	<u>1,708</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>(92,343)</u>	<u>145,703</u>	<u>\$ 238,046</u>
<b>ADJUSTMENTS TO BUDGETARY BASIS:</b>			
Current year encumbrances recognized on the budgetary basis		3,502	
Net change in accrued liabilities recognized on the GAAP basis		(11,419)	
Fund balance - July 1	<u>269,619</u>	<u>373,535</u>	
Fund balance - June 30	<u>\$ 177,276</u>	<u>\$ 511,321</u>	

## INTERNAL SERVICE FUNDS

Internal Service Funds are used to finance and account for special activities and services performed by a designated department for other departments in the City on a cost reimbursement basis.

The concept of major funds does not extend to internal service funds because they do not do business with outside parties. For the Statement of Activities, the net revenues or expenses of each internal service fund be eliminated by netting them against the operations of the other City departments which generated them. The remaining balance sheet items are consolidated with these same funds in the Statement of Net Assets.

However, internal service funds are still presented separately in the Fund financial statements, including the funds below.

### AUTOMOTIVE SERVICES

This fund accounts for the maintenance and replacement of vehicles and equipment used by all City departments. The source of revenue for this fund is rental fees charged to the various departments.

### TECHNICAL EQUIPMENT SERVICES

This fund accounts for the maintenance and replacement of communication and computer equipment used by all City departments. The source of revenue for this fund is rental fees charged to the various departments.

### SPECIAL LIABILITY INSURANCE CLAIMS

This fund was established to account for the cost of claims and administrative costs for the City's self-insured general liability program.

### WORKERS' COMPENSATION INSURANCE CLAIMS

This fund is used to account for the cost of claims for service connected injuries and illnesses sustained by members of the City's work force.

**CITY OF SANTA CLARA  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENTS OF NET ASSETS  
JUNE 30, 2005**

	<b>Automotive Services</b>	<b>Technical Equipment Services</b>	<b>Special Liability Insurance Claims</b>	<b>Workers' Compensation Insurance Claims</b>	<b>TOTAL</b>
<b>ASSETS</b>					
Current assets:					
Pooled cash and investments	\$ 6,183,097	\$ 85,018	\$ 4,044,090	\$ 1,151,358	\$ 11,463,563
Investments with fiscal agent	-	-	19,922,276	-	19,922,276
Receivables (net of allowance for uncollectibles):					
Accounts	131,317	-	-	248,128	379,445
Interest	-	-	10,294	-	10,294
Due from other funds	94,779	80,310	-	-	175,089
Materials, supplies and prepaids	310,374	-	-	-	310,374
Total current assets	<u>6,719,567</u>	<u>165,328</u>	<u>23,976,660</u>	<u>1,399,486</u>	<u>32,261,041</u>
Capital assets:					
Equipment	17,171,602	2,644,200	-	-	19,815,802
	<u>17,171,602</u>	<u>2,644,200</u>	<u>-</u>	<u>-</u>	<u>19,815,802</u>
Accumulated depreciation	12,720,955	1,929,028	-	-	14,649,983
	<u>4,450,647</u>	<u>715,172</u>	<u>-</u>	<u>-</u>	<u>5,165,819</u>
Total assets	<u>11,170,214</u>	<u>880,500</u>	<u>23,976,660</u>	<u>1,399,486</u>	<u>37,426,860</u>
<b>LIABILITIES AND FUND EQUITY</b>					
Current liabilities:					
Accrued liabilities	71,536	17,748	351,756	9,434,026	9,875,066
Accrued compensated absences	107,655	29,932	-	-	137,587
Due to other funds	3,343,305	252,504	-	-	3,595,809
Total current liabilities	<u>3,522,496</u>	<u>300,184</u>	<u>351,756</u>	<u>9,434,026</u>	<u>13,608,462</u>
Long-term Obligations	<u>-</u>	<u>-</u>	<u>20,000,000</u>	<u>-</u>	<u>20,000,000</u>
Total liabilities	<u>3,522,496</u>	<u>300,184</u>	<u>20,351,756</u>	<u>9,434,026</u>	<u>33,608,462</u>
Net assets:					
Invested in capital assets	4,450,647	715,172	-	-	5,165,819
Restricted for contractual obligations	318,264	-	130,460	-	448,724
Unrestricted	2,878,807	(134,856)	3,494,444	(8,034,540)	(1,796,145)
Total Net Assets	<u>\$ 7,647,718</u>	<u>\$ 580,316</u>	<u>\$ 3,624,904</u>	<u>\$ (8,034,540)</u>	<u>\$ 3,818,398</u>

**CITY OF SANTA CLARA  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2005**

	<b>Automotive Services</b>	<b>Technical Equipment Services</b>	<b>Special Liability Insurance Claims</b>	<b>Workers' Compensation Insurance Claims</b>	<b>TOTAL</b>
Operating revenues:					
Charges for services	\$ 3,975,251	\$ 609,302	\$ 1,006,726	\$ 1,486,539	\$ 7,077,818
Insurance refunds and other	-	-	42	316,674	316,716
Total operating revenues	<u>3,975,251</u>	<u>609,302</u>	<u>1,006,768</u>	<u>1,803,213</u>	<u>7,394,534</u>
Operating expenses:					
Salaries and benefits	1,612,375	424,684	-	-	2,037,059
Materials, services and supplies	1,573,087	90,626	-	-	1,663,713
General and administrative	-	-	1,227,926	3,690,834	4,918,760
Depreciation and amortization	<u>1,273,250</u>	<u>129,205</u>	<u>-</u>	<u>-</u>	<u>1,402,455</u>
Total operating expenses	<u>4,458,712</u>	<u>644,515</u>	<u>1,227,926</u>	<u>3,690,834</u>	<u>10,021,987</u>
Operating income (loss)	<u>(483,461)</u>	<u>(35,213)</u>	<u>(221,158)</u>	<u>(1,887,621)</u>	<u>(2,627,453)</u>
Nonoperating revenues (expenses):					
Interest revenue	-	-	520,229	-	520,229
Other revenue	189,380	-	-	-	189,380
Gain (loss) on retirement of assets	(65,448)	-	-	-	(65,448)
Interest expense	<u>-</u>	<u>-</u>	<u>(719,169)</u>	<u>-</u>	<u>(719,169)</u>
Total nonoperating revenues	<u>123,932</u>	<u>-</u>	<u>(198,940)</u>	<u>-</u>	<u>(75,008)</u>
Income (loss) before transfers	<u>(359,529)</u>	<u>(35,213)</u>	<u>(420,098)</u>	<u>(1,887,621)</u>	<u>(2,702,461)</u>
Transfers in	-	149,085	-	1,700,000	1,849,085
Transfers (out)	<u>(24,904)</u>	<u>(336,561)</u>	<u>-</u>	<u>-</u>	<u>(361,465)</u>
Change in net assets	<u>(384,433)</u>	<u>(222,689)</u>	<u>(420,098)</u>	<u>(187,621)</u>	<u>(1,214,841)</u>
Total net assets-beginning	<u>8,032,151</u>	<u>803,005</u>	<u>4,045,002</u>	<u>(7,846,919)</u>	<u>5,033,239</u>
Total net assets-ending	<u>\$ 7,647,718</u>	<u>\$ 580,316</u>	<u>\$ 3,624,904</u>	<u>\$(8,034,540)</u>	<u>\$ 3,818,398</u>

**CITY OF SANTA CLARA  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2005**

	<b>Automotive Services</b>	<b>Technical Equipment Services</b>	<b>Special Liability Insurance Claims</b>	<b>Workers' Compensation Insurance Claims</b>	<b>TOTAL</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 4,004,333	\$ 609,302	\$ 1,006,726	\$ 1,322,965	\$ 6,943,326
Payments to suppliers	(1,533,492)	(78,451)	-	-	(1,611,943)
Payments to employees	(1,620,311)	(427,416)	-	-	(2,047,727)
Internal activity - payments to other funds	(100,346)	(12,438)	-	-	(112,784)
Claims paid	-	-	(1,142,085)	(2,660,345)	(3,802,430)
Other receipts (payments)	189,379	-	-	-	189,379
Net cash provided by operating activities	939,563	90,997	(135,359)	(1,337,380)	(442,179)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Increase (decrease) in due from other funds	(937)	240	-	-	(697)
(Increase) decrease in due to other funds	(61,389)	(130,261)	-	-	(191,650)
Transfers in	-	149,085	-	1,700,000	1,849,085
Transfers (out)	(24,904)	(336,561)	-	-	(361,465)
Cash Flows from Noncapital Financing Activities	(87,230)	(317,497)	-	1,700,000	1,295,273
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Acquisition and construction of capital assets, net	(1,529,675)	-	-	-	(1,529,675)
Interest paid on capital debt	-	-	(719,169)	-	(719,169)
Cash Flows from Capital and Related Financing Activities	(1,529,675)	-	(719,169)	-	(2,248,844)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest and dividends	-	-	676,610	-	676,610
Deposits made with fiscal agent	-	-	51,797	-	51,797
Cash Flows from Investing Activities	-	-	728,407	-	728,407
Net increase (decrease) in cash and cash equivalents	(677,342)	(226,500)	(126,121)	362,620	(667,343)
Cash and investments at beginning of period	6,860,439	311,518	4,170,211	788,738	12,130,906
Cash and investments at end of period	<u>\$ 6,183,097</u>	<u>\$ 85,018</u>	<u>\$ 4,044,090</u>	<u>\$ 1,151,358</u>	<u>\$ 11,463,563</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ (483,461)	\$ (35,213)	\$ (221,158)	\$ (1,887,621)	\$ (2,627,453)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	1,273,250	129,205	-	-	1,402,455
Change in assets and liabilities:					
Receivables, net	29,082	-	-	(163,574)	(134,492)
Inventory	(30,852)	-	-	-	(30,852)
Accrued liabilities	(29,899)	(262)	85,799	713,815	769,453
Compensated absences	(7,937)	(2,733)	-	-	(10,670)
Other receipts	189,380	-	-	-	189,380
Net cash provided by operating activities	<u>\$ 939,563</u>	<u>\$ 90,997</u>	<u>\$ (135,359)</u>	<u>\$ (1,337,380)</u>	<u>\$ (442,179)</u>

FIDUCIARY FUNDS - AGENCY FUNDS
--------------------------------

Agency Funds, the only fiduciary funds the City has, are presented separately from the Government-wide and Fund financial statements.

Agency Funds account for assets held by the City as an agent for individuals, governmental entities, and non-public organizations. These funds include the following:

#### EMPLOYEE BENEFIT AND LIABILITY CLEARING

This fund is used to account for monies collected and disbursed related to employee and retiree health, dental and other fringe benefits.

#### SPECIAL ASSESSMENTS

This fund accounts for monies collected and disbursed from special assessment districts where the City is not obligated for the outstanding debt payments.

#### DEPOSITS

This fund accounts for various deposits including, leases, subpoena and utility deposits.

**CITY OF SANTA CLARA  
AGENCY FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2005**

	<u>Employee Benefit &amp; Liability Clearing</u>	<u>Special Assessments</u>	<u>Deposit</u>	<u>Total</u>
<b>ASSETS</b>				
Pooled cash and investments	\$ 1,207,537	\$ 2,834,201	\$ 5,503,858	\$ 9,545,596
Cash and investments with fiscal agents	<u>-</u>	<u>220,582</u>	<u>-</u>	<u>220,582</u>
Total Assets	<u>\$ 1,207,537</u>	<u>\$ 3,054,783</u>	<u>\$ 5,503,858</u>	<u>\$ 9,766,178</u>
<b>LIABILITIES</b>				
Due to bondholders	\$ -	\$ 3,054,783	\$ -	\$ 3,054,783
Accrued liabilities	1,207,537	-	-	1,207,537
Refundable deposits	<u>-</u>	<u>-</u>	<u>5,503,858</u>	<u>5,503,858</u>
Total Liabilities	<u>\$ 1,207,537</u>	<u>\$ 3,054,783</u>	<u>\$ 5,503,858</u>	<u>\$ 9,766,178</u>

**CITY OF SANTA CLARA  
AGENCY FUNDS  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005
<u>Employee Benefit and Liability Clearing Fund</u>				
Pooled cash and investments	<u>\$ 421,648</u>	<u>\$111,584,609</u>	<u>\$110,798,720</u>	<u>\$ 1,207,537</u>
Accrued liabilities	<u>\$ 421,648</u>	<u>\$111,584,609</u>	<u>\$110,798,720</u>	<u>\$ 1,207,537</u>
<u>Special Assessments</u>				
Pooled cash and investments	\$ 3,313,959	\$ 1,207,531	\$ 1,687,289	\$ 2,834,201
Cash and investments with fiscal agent	<u>230,582</u>	<u>25,000</u>	<u>35,000</u>	<u>220,582</u>
Total Assets	<u>\$ 3,544,541</u>	<u>\$ 1,232,531</u>	<u>\$ 1,722,289</u>	<u>\$ 3,054,783</u>
Due to bondholders	<u>\$ 3,544,541</u>	<u>\$ 1,232,531</u>	<u>\$ 1,722,289</u>	<u>\$ 3,054,783</u>
<u>Deposits Fund</u>				
Pooled cash and investments	<u>\$ 4,858,332</u>	<u>\$ 1,049,291</u>	<u>\$ 403,765</u>	<u>\$ 5,503,858</u>
Refundable deposits	<u>\$ 4,858,332</u>	<u>\$ 1,049,291</u>	<u>\$ 403,765</u>	<u>\$ 5,503,858</u>
Total liabilities	<u>\$ 4,858,332</u>	<u>\$ 1,049,291</u>	<u>\$ 403,765</u>	<u>\$ 5,503,858</u>
<u>Total Agency Funds</u>				
Pooled cash and investments	\$ 8,593,939	\$113,841,431	\$112,889,774	\$ 9,545,596
Cash and investments with fiscal agent	<u>230,582</u>	<u>25,000</u>	<u>35,000</u>	<u>220,582</u>
Total Assets	<u>\$ 8,824,521</u>	<u>\$113,866,431</u>	<u>\$112,924,774</u>	<u>\$ 9,766,178</u>
Due to bondholders	\$ 3,544,541	\$ 1,232,531	\$ 1,722,289	\$ 3,054,783
Accrued liabilities	421,648	111,584,609	110,798,720	1,207,537
Refundable deposits	<u>4,858,332</u>	<u>1,049,291</u>	<u>403,765</u>	<u>5,503,858</u>
Total Liabilities	<u>\$ 8,824,521</u>	<u>\$113,866,431</u>	<u>\$112,924,774</u>	<u>\$ 9,766,178</u>

**CITY OF SANTA CLARA**

**Table 1**

**General Governmental Revenues by Source  
Last Ten Fiscal Years  
(In Thousands)**

<b>Fiscal Year Ended June 30</b>	<b>Taxes</b>	<b>Licenses Permits Fines and Penalties</b>	<b>Inter- Governmental</b>	<b>Charges for Services</b>	<b>Contributions In Lieu</b>	<b>Interest and Rents</b>	<b>Other</b>	<b>Total (1)</b>
1996	\$68,408	\$2,149	\$7,239	\$7,589	\$10,939	\$14,957	\$1,086	\$112,367
% Total	60.9	1.9	6.4	6.8	9.7	13.3	1.0	100.0
1997	71,428	3,178	8,591	8,706	10,805	16,014	1,278	120,000
% Total	59.5	2.6	7.2	7.3	9.0	13.3	1.1	100.0
1998	80,822	3,750	8,704	8,706	10,870	19,139	2,218	134,209 *
% Total	60.2	2.8	6.5	6.5	8.1	14.3	1.7	100.0
1999	86,129	5,168	9,433	9,350	9,309	19,363	1,853	140,605
% Total	61.3	3.7	6.7	6.6	6.6	13.8	1.3	100.0
2000	91,940	4,833	11,358	10,895	9,456	21,436	2,291	152,209
% Total	60.4	3.2	7.5	7.2	6.2	14.1	1.5	100.0
2001	106,151	6,587	11,296	13,122	10,041	31,780	5,699	184,676
% Total	57.5	3.6	6.1	7.1	5.4	17.2	3.1	100.0
2002	73,096	4,454	12,920	12,417	11,817	20,857	1,091	136,652
% Total	53.5	3.3	9.5	9.0	8.6	15.3	0.8	100.0
2003	63,117	4,608	11,181	12,283	11,865	18,195	1,586	122,835
% Total	51.4	3.8	9.1	9.9	9.7	14.8	1.3	100.0
2004	64,473	4,736	12,947	14,862	11,905	3,428	1,322	113,673
% Total	56.7	4.2	11.4	13.0	10.5	3.0	1.2	100.0
2005	68,632	5,229	8,744	14,835	11,993	10,419	1,647	121,499
% Total	56.5	4.3	7.2	12.1	9.9	8.6	1.4	100.0

Note (1): Includes general, special revenue, debt service and permanent funds.  
Excludes redevelopment funds beginning in 2002.

\*Revised - Moved Solid Waste from general fund to enterprise fund.

Source: City of Santa Clara

Table 2

**CITY OF SANTA CLARA**  
**General Governmental Expenditures by Function (1)**  
**Last Ten Fiscal Years**  
(In Thousands)

Fiscal Year Ended June 30	General Government	Public Works	Parks and Recreation	Public Safety	Library	Capital Outlay	Debt Service (2)	Capital Projects	Total Expenditures
1996	\$12,866	\$11,155	\$6,534	\$42,703	\$3,352	\$5,327	\$20,695	\$5,351	\$107,983
% Total	11.9	10.3	6.1	39.5	3.1	4.9	19.2	5.0	100
1997	14,409	11,513	6,712	44,499	3,517	4,977	21,823	11,461	118,911
% Total	12.1	9.7	5.6	37.4	3.0	4.2	18.4	9.6	100
1998	14,357	11,025	7,057	45,993	3,672	6,835	28,672	16,846	134,457
% Total	10.7	8.2	5.2	34.2	2.7	5.1	21.3	12.5	100
1999	14,752	11,806	7,405	48,529	4,148	8,268	23,984	24,490	143,382
% Total	10.3	8.2	5.2	33.8	2.9	5.8	21.8	17.1	100
2000	17,152	12,366	7,896	49,902	4,769	8,153	25,286	28,953	154,477
% Total	11.1	8.0	5.1	32.3	3.1	5.3	16.4	18.7	100
2001	20,180	13,395	8,479	55,130	4,851	13,089	22,844	27,045	165,013
% Total	12.2	8.1	5.1	33.4	2.9	7.9	13.8	16.4	100
2002 (3)	34,839	16,261	10,112	60,349	5,618	1,906	20,739	26,503	176,327
% Total	19.8	9.2	5.7	34.2	3.2	1.1	11.8	15.0	100
2003	33,829	14,762	10,809	64,683	5,853	3,022	24,526	45,537	203,021
% Total	16.7	7.3	5.3	31.9	2.9	1.5	12.1	22.4	100
2004	32,739	14,670	10,657	67,110	5,883	9,711	26,273	40,724	207,767
% Total	15.8	7.1	5.1	32.3	2.8	4.7	12.6	19.6	100
2005	39,135	15,767	10,249	67,913	6,891	9,817	26,336	9,425	185,533
% Total	21.1	8.5	5.5	36.6	3.7	5.3	14.2	5.1	100.0

Notes: (1) Includes general, special revenue, debt service, capital project and permanent funds. Expenditures are on the actual (GAAP) basis.

(2) Debt Service portion of Special Assessment Fund transferred to Debt Service Fund per Government Accounting Standards Board Statement No. 6 "Accounting and Financial Reporting for Special Assessments." This statement was effective for financial statements for periods beginning after June 15, 1987. The City chose to implement this statement a year earlier than required.

(3) The City implemented Government Accounting Standards Board Statement No. 34 in fiscal year 2002.

Source: City of Santa Clara

Table 3

**CITY OF SANTA CLARA**  
**Tax Revenues by Source**  
**Last Ten Fiscal Years**  
(In Thousands)

Fiscal Year Ended June 30	TAX BY CATEGORY						Totals
	Sales and Use	Property (1)	Transient Occupancy	Franchise	Document Transfer	Special Assessments	
1996	\$37,518	\$19,199	\$7,143	\$1,533	\$268	\$2,747	\$68,408
% Total	54.8	28.1	10.4	2.2	0.4	4.0	100.0
1997	37,229	20,837	8,415	1,764	458	2,725	71,428
% Total	52.1	29.2	11.8	2.5	0.6	3.8	100.0
1998	38,694	26,061	10,287	1,669	580	3,531	80,822
% Total	47.9	32.2	12.7	2.1	0.7	4.4	100.0
1999	40,180	29,668	10,378	1,768	492	3,643	86,129
% Total	46.7	34.4	12.0	2.1	0.6	4.2	100.0
2000	43,445	30,813	11,456	1,879	817	3,531	91,941
% Total	47.3	33.5	12.5	2.0	0.9	3.8	100.0
2001	51,062	35,961	14,821	2,544	602	1,161 (2)	106,151
% Total	48.1	33.9	14.0	2.4	0.6	1.1	100.0
2002	40,104	44,669	11,253	3,128	760	1,166 (2)	101,080
% Total	39.7	44.2	11.1	3.1	0.8	1.2	100.0
2003	33,815	45,335	7,890	2,410	615	1,159 (2)	91,224
% Total	37.1	49.7	8.6	2.6	0.7	1.3	100.0
2004	35,976	42,429	7,160	2,771	1,134	1,165	90,635
% Total	39.7	46.8	7.9	3.1	1.3	1.3	100.0
2005	35,696	39,928	7,863	2,613	1,229	1,163	88,492
% Total	40.4	45.1	8.9	3.0	1.4	1.3	100.0

**Redevelopment Agency**  
**Property Taxes (1)**  
(In Thousands)

FY 1995/96	\$10,413	FY 2000/01	\$21,360
FY 1996/97	11,645	FY 2001/02	27,986
FY 1997/98	15,191	FY 2002/03	28,106
FY 1998/99	17,839	FY 2003/04	26,161
FY 1999/00	17,418	FY 2004/05	19,859

Note (1): Property tax revenues by source include all Governmental Fund types (General, Special Revenue, Capital Projects, and Debt Service funds), including property tax revenues for the Agency as indicated above in accordance with the implementation of NCGA Statement 3.

(2): Special Assessments include only Assessment District #186.

Source: City of Santa Clara

CITY OF SANTA CLARA						Table 4
Property Tax Levies and Collections Last Ten Fiscal Years (In Thousands)						
Fiscal Year	Gross Tax Levy		Current Tax Collections	Percentage of Current Levy Collected	Delinquent Tax Collections	Total Collections
1995 / 96	\$9,021	(1)	\$8,782	(1) 97.35 %	\$4	\$8,786
1996 / 97	9,241	(2)	9,144	(2) 98.95	2	9,146
1997 / 98	10,669		10,519	98.59	122	10,641
1998 / 99	11,713		11,543	98.55	124	11,667
1999 / 00	12,855		12,744	99.14	85	12,829
2000 / 01	13,733		13,523	98.47	181	13,704
2001 / 02	15,848		15,795	99.67	14	15,809
2002 / 03	16,884		16,763	99.28	22	16,785
2003 / 04	16,182		16,106	99.53	(3)	16,103
2004 / 05	15,892		15,841	99.68	0	15,841

Notes: (1) Net State mandated shift to schools of approximately \$648 thousand.  
(2) Net State mandated shift to schools of approximately \$700 thousand.

Sources: City of Santa Clara  
Santa Clara County, Department of Finance

CITY OF SANTA CLARA				Table 5
Special Assessment Billings and Collections Last Ten Fiscal Years (In Thousands)				
Fiscal Year	Current Assessments Due	Current Assessments Collected	Percent of Collections to Amount Due	
1995 / 96	\$2,696	\$2,709	100.48 %	(1)
1996 / 97	2,696	2,697	100.04	
1997 / 98	3,543	3,503	98.87	
1998 / 99	3,640	3,631	99.75	
1999 / 00	1,168	1,168	100.00	(2)
2000 / 01	1,161	1,161	100.00	(2)
2001 / 02	1,166	1,166	100.00	(2)
2002 / 03	1,159	1,159	100.00	(2)
2003 / 04	1,165	1,165	100.00	(2)
2004 / 05	1,163	1,163	100.00	(2)

Note: (1) Current collections include prepayments from new assessment district created in fiscal 1990  
(2) Special assessments include only Assessment District #186.

Sources: City of Santa Clara  
Santa Clara County Assessment Roll

Table 6

**CITY OF SANTA CLARA**  
**Assessed and Estimated Actual Value of Taxable Property**  
**Last Ten Fiscal Years**  
**(In Thousands)**

Year	Net Local Secured Roll	SBE (2)	Net Unsecured Roll	Net Assessed Valuation (1)	Estimated Actual Value	Ratio of Assessed Value To Estimated Value	% of Growth of Assessed Valuation
1995 / 96	\$7,929,819	\$3,199	\$1,889,597	\$9,822,615	\$9,932,805	98.89%	-0.52%
1996 / 97	8,265,307	3,102	2,492,331	10,760,740	10,871,113	98.98%	9.55%
1997 / 98	8,949,286	3,327	3,084,904	12,037,517	12,424,530	96.89%	11.87%
1998 / 99	10,088,177	3,425	3,046,790	13,138,392	13,250,246	99.16%	9.15%
1999 / 00	10,879,040	2,632	3,326,278	14,207,950	14,320,454	99.21%	8.14%
2000 / 01	11,822,175	2,497	3,463,886	15,288,558	15,400,547	99.27%	7.61%
2001 / 02	13,744,409	2,554	4,477,383	18,224,346	18,335,454	99.39%	19.20%
2002/ 03	15,110,520	2,861	4,207,133	19,320,514	19,429,970	99.44%	6.01%
2003/ 04	15,283,368	2,803	3,639,274	18,925,445	19,033,631	99.43%	-2.04%
2004/ 05	14,978,836	2,471	2,991,292	17,972,599	18,081,181	99.40%	-5.03%

Notes: (1) Full cash value.

(2) Beginning in fiscal 1989, Chapter 921 of the Statutes of 1987 requires the establishment of a single County-wide tax rate area for the assignment of the assessed value of certain types of State-assessed utility property.

Source: Santa Clara County, Department of Finance

Table 7

**CITY OF SANTA CLARA**  
**Ten Largest Property Owners**  
**(In Thousands)**  
**June 30, 2005**

Organization		Assessed Property Valuation	Percent of Total
Intel Corporation	Semiconductor manufacturing	\$ 1,383,919	7.70%
Applied Materials Inc.	Semiconductor manufacturing	559,582	3.11%
Sobrato Development Company	Real estate / Land development	450,831	2.51%
Santa Clara College	Non-profit organization	313,790	1.75%
Kaiser Foundation Hospitals	Medical	310,730	1.73%
Sun Microsystems, Inc.	Computer products/software	267,547	1.49%
National Semiconductor Corporation	Semiconductor manufacturing	206,224	1.15%
Agilent Technologies Inc.	Semiconductors, Communications	157,949	0.88%
Prudential Insurance Company	Insurance Products	149,730	0.83%
City of Santa Clara	Government	138,694	0.77%
	Total	<u>\$ 3,938,996</u>	<u>21.92%</u>
Total City of Santa Clara assessed property valuation, net		<u>\$17,972,599</u>	

Source: Santa Clara County Assessor 2004/05 Combined Tax Rolls through HdL Coren & Cone.

# CITY OF SANTA CLARA

Table 8

## Property Tax Rates (Per \$100 assessed valuation) Direct and Overlapping Governments Last Ten Fiscal Years

Fiscal Year	Santa Clara County	School Districts	Special Districts	Total
1995 / 96	1.0332%	-	0.0098%	1.0430%
1996 / 97	1.0338%	-	0.0102%	1.0440%
1997 / 98	1.0341%	0.0413%	0.0098%	1.0852%
1998 / 99	1.0388%	0.0450%	0.0082%	1.0920%
1999 / 00	1.0319%	0.0225%	0.0085%	1.0629%
2000 / 01	1.0356%	0.0174%	0.0075%	1.0605%
2001 / 02	1.0364%	0.0366%	0.0062%	1.0792%
2002 / 03	1.0388%	0.0252%	0.0072%	1.0712%
2003 / 04	1.0388%	0.0263%	0.0087%	1.0738%
2004 / 05	1.0388%	0.0344%	0.0092%	1.0824%
<p>Tax rate limit: A state constitutional amendment (Proposition 13) commencing with fiscal 1979 provided that the tax rate was limited to 1% of full cash value, levied only by the County and shared with all other jurisdictions. All jurisdictions may levy a tax rate for voter approved debt.</p> <p>Due date for current taxes: First installment - November 1; second installment - February 1.</p> <p>Penalties for delinquency: 10% and \$5.00 cost after date taxes become delinquent.</p> <p>Collected by government unit: County of Santa Clara.</p> <p>Basis upon which collections are distributed: Taxing jurisdictions assessed valuations and tax rates for voter approved debt to taxing jurisdictions, County rate (1% of full cash value) shared by all jurisdictions.</p> <p>Compensation paid to collecting government unit: \$ 164,232</p>				

Note: Tax rates stated are the rates applicable to the tax area 7-000 as typical tax rate area within the City. Rates are based on \$100 assessed valuation.

Source: Santa Clara County, Department of Finance

# CITY OF SANTA CLARA

Table 9

## Computation of Legal Debt Margin

June 30, 2005

(In Thousands)

Total assessed value (Net)		<u>\$ 17,972,599</u>
Legal Debt Margin:		
Debt limit - 15% of total assessed value (Note 1)		\$ 2,695,890 (1)
Amount of debt applicable to debt limit:		
Total bonded debt	\$ 373,972 (2)	
Less:		
Other deductions allowed by law:		
Revenue Bonds	\$280,547	
Special Assessment District Debt	6,700	
Other Debt	<u>66,725</u>	
Total Deductions	<u>353,972</u>	
Total amount applicable to debt limit		<u>20,000</u>
Legal debt margin		<u>\$ 2,675,890</u>

Notes: (1) Section 1309 of the City Charter of the City states: "Bonded Debt Limit. The bonded indebtedness of the City may not in the aggregate exceed the sum of fifteen percent (15%) of the total assessed valuation of property within the City, exclusive of revenue bonds or any indebtedness that has been or may hereafter be incurred for the purposes of acquiring, constructing, extending, or maintaining municipally owned utilities, for which purposes a further indebtedness may be incurred by the issuance of bonds, subject only to the provisions of the State Constitution and this Charter."

(2) This amount excludes the following long-term obligations: State Water Resource Control Board Loan, Compensated Absences, Redevelopment Agency Obligations, and the Landfill Postclosure Obligation.

Sources: Santa Clara County, Department of Finance  
City of Santa Clara

# CITY OF SANTA CLARA

Table 10

## Computation of Direct and Overlapping Bonded Debt June 30, 2005

Description	% Applicable	Debt
<b><u>Direct Debt:</u></b>		
Certificates of Participation Series 2002A	100	\$ 24,350,000
Certificates of Participation Series 2002B	100	28,440,000
Certificates of Participation Series 1997	100	13,935,000
City of Santa Clara 1915 Act Bonds	100	6,700,000
<b>Total Gross Direct Debt</b>		<b>73,425,000</b>
<b><u>Overlapping Debt:</u></b>		
Santa Clara County General Fund Obligations	8.661%	64,595,551
Santa Clara County Flood Control and Water Conservation District, Zone W-1	10.356	366,487
Santa Clara Valley Water District Certificates of Participation	8.661	15,294,745
Santa Clara County Board of Education Certificates of Participation	8.661	1,442,757
Foothill Community College District	1.344	288,867
San Jose Community College District	0.062	103,468
West Valley Community College District Certificates of Participation	30.244	6,377,939
San Jose Unified School District	0.184	531,370
Fremont Union High School District	2.804	3,933,462
Campbell Union High School District	1.643	1,529,262
Campbell Union School District	3.661	3,173,888
Cupertino Union School District Certificates of Participation	4.863	252,366
El Camino Hospital Authority	1.744	7,243
Cupertino Union School Districts	4.863	5,776,058
Santa Clara Unified School District	79.694	95,160,469
San Jose Unified School District Certificates of Participation	0.184	185,573
Foothill DeAnza Community College District	1.344	2,385,134
Santa Clara Unified School District Certificates of Participation	79.694	6,007,505
<b>Total Overlapping Debt</b>		<b>207,412,144</b>
<b>Total Gross Direct and Overlapping Bonded Debt</b>		<b>280,837,144 (1)</b>
<b>Less: El Camino Hospital Authority</b>		<b>7,243</b>
<b>TOTAL NET DIRECT AND OVERLAPPING BONDED DEBT</b>		<b>\$ 280,829,901</b>
2004/2005 Assessed Value \$ 15,909,853,915 (after deducting \$2,717,327,506 redevelopment incremental value).		
<b><u>Ratios to Assessed Valuation:</u></b>		
Direct Debt ( \$73,425,000 )	0.462%	
Total Gross Debt	1.765%	
Total Net Debt	1.765%	
State School Building Aid Repayable As of 6/30/05: \$	-	

**Note (1) :** Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds.

**Source:** California Municipal Statistics, Inc.

# CITY OF SANTA CLARA

Table 11

## Electric Revenue Bond Coverage Fiscal Years 1996 Through 2005 (In Thousands)

Fiscal Year		Gross Revenue (1)	Direct Expense (2)	Rate Stabilization Fund	Net Revenue Available For Debt Service	Debt Service				Coverage (3)
						Principal	Interest	Letter of Credit Fees	Total	
1996	(4)	\$190,821	\$153,005	\$ -	\$37,816	\$4,495	\$8,933	\$432	\$13,860	2.73
1997		188,885	153,579	-	35,306	5,865	8,807	421	15,093	2.34
1998		197,413	149,429	-	47,984	7,240	8,369	649	16,258	2.95
1999		216,317	141,237	-	75,080	9,460	6,827	464	16,751	4.48
2000		234,024	142,870	-	91,154	9,208	6,684	788	16,680	5.46
2001		413,253	168,113	-	245,140	10,065	6,516	182	16,763	14.62
2002	(5)	258,167	184,865	-	73,302	48,290	4,355	230	52,875	1.39
2003	(6)	218,456	176,274	-	42,182	16,995	5,180	166	22,341	1.89
2004		208,058	174,753	-	33,305	5,160	8,433	261	13,854	2.40
2005		218,849	158,883	-	59,966	5,840	10,389	262	16,491	3.64

Notes: (1) Gross revenue includes operating and nonoperating revenues less equity in joint ventures plus capitalized interest earnings less interest earnings on collateralized escrow securities.

(2) Direct expense include operating expenses less depreciation and amortization and contribution-in-lieu to the General Fund, uncapitalized interest expense (other than revenue bonds) and letter of credit fees.

(3) The required coverage is 1.25.

(4) Certain reclassifications have been made to prior years to conform to the current year presentation.

(5) Principal includes the cost of retiring the 1998 Taxable Bonds for \$39.72 million.

(6) Principal includes the cost of advanced refunding of the 1991 B Revenue Bonds for \$10.32 million.

Source: City of Santa Clara

# CITY OF SANTA CLARA

Table 12

## Demographic Statistics Last Ten Calendar Years

Year	Population (1)	Per Capita Income (2)	Median Age (2)	Public School Enrollment (3)	County Unemployment Rate (4)	City Unemployment Rate (4)
1996	97,982	\$18,910	33.2	13,458	3.6%	3.4%
1997	100,030	19,911	33.5	14,098	3.0%	2.8%
1998	101,877	21,292	33.7	14,182	3.2%	3.0%
1999	102,682	22,585	34.1	14,338	3.0%	2.8%
2000	102,895	24,129	34.3	14,308	2.0%	1.9%
2001	104,616	27,921	34.5	13,565	4.5%	4.2%
2002	104,306	27,023	34.2	13,321	8.4%	7.9%
2003	105,831	25,282	35.2	13,188	8.2%	7.7%
2004	107,200	n/a	n/a	13,839	6.2%	5.9%
2005	109,106	n/a	n/a	13,317	5.5%	4.8%

**Sources:** (1) State of California, Department of Finance (January 1, 2005 estimate).  
 (2) Sales & Marketing Management - Survey of Buying Power (Sept. edition).  
 (3) Santa Clara Unified School District, Demographic Department (fiscal year).  
 (4) California Employment Development Department - Labor Market Analysis  
 (annual average; 2005 based on first six months average).

# CITY OF SANTA CLARA

Table 13

## Property Values, Construction and Bank Deposits Last Ten Fiscal Years (Dollars in Thousands)

Fiscal Year	Property Values	<u>Non-Residential Construction</u>		<u>Residential Construction</u>		Bank Deposits	(3)
		Number Of Permits Issued	Value	Number Of Units (1)	Value (2)		
1996	\$9,822,615	1,588	\$157,851	62	\$15,658	\$2,539,204	
1997	10,760,740	1,779	318,804	378	44,635	2,879,704	
1998	12,037,517	1,727	370,137	241	34,103	3,429,641	
1999	13,138,392	1,600	288,982	679	83,636	3,517,844	
2000	14,207,950	1,468	375,335	925	34,016	4,731,467	
2001	15,288,558	1,435	587,949	591	38,482	4,642,052	
2002	18,224,346	1,062	171,439	858	147,516	4,682,460	
2003	19,320,514	869	210,288	968	123,773	5,336,276	
2004	18,925,445	925	116,831	1,061	130,439	6,090,748	
2005	17,972,599	1,116	164,451	977	186,762	*	

\* Information not available

- Notes:** (1) Includes new and remodel residential units.  
 (2) Includes new and remodel construction values.  
 (3) Includes Bank, Savings and Loan and Credit Union deposits.

Sources: City of Santa Clara  
 Santa Clara County, Department of Finance  
 Federal Deposit Insurance Corporation (FDIC)

Table 14

**CITY OF SANTA CLARA**  
**Taxable Retail Sales Comparison**  
**Last Ten Calendar Years**  
**(In Thousands)**

<b>Calenda Year</b>	<b>City of Santa Clara</b>	<b>Annual Percent Change Inc/(Dec)</b>	<b>County of Santa Clara</b>	<b>Annual Percent Change Inc/(Dec)</b>	<b>State of California</b>	<b>Annual Percent Change Inc/(Dec)</b>
1995	\$1,391,331	10.2%	\$12,175,280	10.0%	\$194,378,106	3.9%
1996	1,479,236	6.3%	13,309,699	9.3%	205,746,810	5.8%
1997	1,641,841	11.0%	14,363,950	7.9%	217,248,677	5.6%
1998	1,671,563	1.8%	15,000,747	4.4%	229,406,469	5.6%
1999	1,860,653	11.3%	16,781,972	11.9%	255,589,386	11.4%
2000	2,195,053	18.0%	19,773,484	17.8%	287,067,697	12.3%
2001	1,866,198	-15.0%	17,936,704	-9.3%	293,956,921	2.4%
2002	1,657,584	-11.2%	16,245,184	-9.4%	301,612,306	2.6%
2003	1,684,476	1.6%	16,515,094	1.7%	320,217,054	6.2%
2004 *	1,758,842	4.4%	17,662,685 *	6.9%	350,734,136 *	9.5%

Source: California State Board of Equalization and MBIA MuniServices

\* Estimated for year based on available 3 quarters.

Table 15

**CITY OF SANTA CLARA**  
**Ten Largest Sales Tax Sources**  
**By Economic Category**  
**Years Ended December 31, 2004 and 2003**

<b>Economic Category</b>	<b>CALENDAR YEAR</b>		<b>Annual Percent Change Inc/(Dec)</b>
	<b>2004</b>	<b>2003</b>	
New Auto Sales	17%	17%	0%
Electronic Equipment	16%	12%	4%
Office Equipment	6%	10%	-4%
Light Industry	8%	9%	-1%
Restaurants	8%	7%	1%
Department Stores	6%	7%	-1%
Building Materials-Wholesale	6%	5%	1%
Miscellaneous Retail	5%	4%	1%
Service Stations	3%	3%	0%
Furniture/ Appliance	3%	3%	0%
	<u>78%</u>	<u>77%</u>	<u>1%</u>
All Other Categories	<u>22%</u>	<u>23%</u>	<u>-1%</u>
	<u>100%</u>	<u>100%</u>	<u>0%</u>

Source: MBIA MuniServices

# CITY OF SANTA CLARA

Table 16

## Taxable Sales Most Recently Available Ten Calendar Years (In Thousands)

Category	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 *
Apparel	\$ 32,768	\$ 35,994	\$ 43,615	\$ 44,184	\$ 42,269	\$ 48,331	\$ 52,961	\$ 49,012	\$ 51,097	\$ 58,475
General merchandise	133,189	121,571	207,246	219,415	238,099	260,832	213,872	195,056	195,815	195,235
Drug	34,430	35,801	n/a	n/a	n/a	n/a	30,076	28,733	28,482	30,984
Food stores	47,956	47,920	46,214	49,756	50,109	54,087	57,988	53,230	62,305	59,591
Packaged liquor	10,042	15,813	n/a	n/a	n/a	n/a	22,606	21,974	20,337	20,859
Eating and drinking	164,916	176,910	187,695	189,840	199,362	234,979	214,116	188,943	191,107	203,479
Home furnishings/ appliances	140,667	147,328	158,326	149,003	171,552	219,449	110,252	101,754	87,881	91,448
Building materials	85,764	95,883	108,682	112,768	118,837	139,277	152,917	134,070	130,831	138,340
Auto dealerships	377,141	410,584	437,960	438,347	514,051	621,998	560,181	522,377	545,487	562,264
Service stations	57,655	67,084	65,852	56,649	65,809	88,568	86,034	80,808	90,713	103,498
Other retail outlets	306,803	324,348	386,251	411,601	460,565	527,532	408,931	297,843	274,643	294,669
TOTAL RETAIL OUTLETS	1,391,331	1,479,236	1,641,841	1,671,563	1,860,653	2,195,053	1,909,934	1,673,800	1,678,698	1,758,842
All other outlets	1,486,383	1,732,600	1,661,293	1,536,441	1,662,457	1,985,066	1,638,495	1,370,131	1,321,397	1,292,104
TOTAL ALL OUTLETS	<u>\$ 2,877,714</u>	<u>\$ 3,211,836</u>	<u>\$ 3,303,134</u>	<u>\$ 3,208,004</u>	<u>\$ 3,523,110</u>	<u>\$ 4,180,119</u>	<u>\$ 3,548,429</u>	<u>\$ 3,043,931</u>	<u>\$ 3,000,095</u>	<u>\$ 3,050,946</u>
Annual Percent Change	17.27%	11.61%	2.84%	-2.88%	9.82%	18.65%	-15.11%	-14.22%	-1.44%	1.69%

Source: MBIA MuniServices

\* Latest year information available.

# CITY OF SANTA CLARA

Table 17

## Twenty-Five Largest Employers June 30, 2005

Number of Employees	Company	Type of Business
2,001 to 6,000	Applied Materials Incorporated	Semiconductor Manufacturing
	Intel Corporation	Semiconductor Manufacturing
1,001 to 2,000	Great America *	Amusement Park
	NVIDIA Corp.	Graphic Processors, Semiconductors
	Permanente Medical Group, Inc.	Medical Group
	Siliconix	Semiconductor Manufacturing
	Sun Microsystems, Inc.	Computer Products/Software
500 to 1,000	Abbott Diagnostics	Medical Equipment Manufacturing
	Akt America, Inc.	Semiconductor Manufacturing, R & D
	Align Technologies, Inc.	Medical Device Company
	Emc Corporation	Data Storage
	Foundry Networks	Switching /Routing Hardware
	Hitachi Data Systems	Information Storage
	Hyperion Solutions	Software Company
	Intandem Inc.	Engineering Design Services
	Macrovision Corp.	Computer Software
	National Semiconductor Inc.	Semiconductor Manufacturing
	Nortel Networks, Inc.	Telecommunications
	Owens Corning, Inc.	Homebuilding Products
	Pacific Maintenance , Inc.	Cleaning Services
	Silicon Valley Bank	Financial Institution
	Transmeta Corporation	Semiconductor Manufacturing
	Santa Clara University	Private University
400 to 499	Integrated Device Technology	Semiconductor Manufacturing
	Symyx Technologies, Inc.	Software/Research & Development

\* Includes seasonal workers

**Source:** City of Santa Clara  
2005 Northern California Business Directory  
ReferenceUSA database

# CITY OF SANTA CLARA

Table 18

## Statement of Insurance Coverage June 30, 2005

TYPE OF POLICY	INSURANCE COMPANY	LIMITS *	ANNUAL PREMIUM	TERM YEARS	EXPIRATION DATE
<b><u>Liability</u></b>					
Comprehensive General	Self-insured (since 1987)	-	n/a	-	Ongoing
Workers' Compensation	Self-insured (since 1973)	\$500 thousand	n/a	-	Ongoing
Excess Workers' Compensation	Ace American Insurance	\$100 million	\$528,288	1	7/1/2005
<b><u>Property Coverage</u></b>					
All Risks, including flood, excluding earthquake	Public Entity Property Insurance Program (PEPIP): Allianz Insurance Co., General Star National Greenwich Ins., Lexington Insurance, Zurich American Insurance Co. and Others	\$750 million	\$363,287	1	7/1/2005
Boiler and Machinery	CNA Insurance Co.	\$100 million	\$111,582	1	7/1/2005
Boiler and Machinery, DVR/Pico Power Facility	CNA Insurance Co.	\$100 million	\$241,837	1	7/1/2006
<b><u>Financial Loss Bonds</u></b>					
Faithful Performance, Crime Coverage Bond	Fidelity & Deposit Company of Maryland	\$1 million	\$8,854	1	11/1/2005

\* Limits are per occurrence

Source: City of Santa Clara

CITY OF SANTA CLARA				Table 19
Miscellaneous Statistics				
June 30, 2005				
Year of Incorporation	1852	Number of employees (Excluding fire, police and council members):		
Form of Government	Council/Manager	Unclassified	93.00	
Area in square miles	19.25	Classified	568.00	
		Total	661.00	
City of Santa Clara Facilities and Services				
Culture and Recreation:		Electric System:		
Number of community centers	4	Number of meters	49,775	
Number of parks	30	Miles of high voltage lines	477	
Park acreage	277	Number of substations	14	
Number of golf courses	1	Maximum annual demand	399.7 MW	
Number of swimming pools	4	Total annual energy	2,573,056 Mwh	
Number of tennis courts	27	Sewerage System:		
Number of lawn bowling greens	1	Number of service connections	25,897	
Number of lighted soccer fields	3	Miles of sanitary sewers	282	
Number of lighted softball fields	7	Miles of storm sewers	138	
Number of neighborhood park building	8	Number of treatment plants	1 Tertiary	
Number of gymnastic centers	1	Peak flow (5-day average)	109 MGD	
Number of skate parks	1	Maximum daily capacity of treatment plant	167 MGD	
Number of community theaters	1	Water System:		
Number of libraries	2	Number of meters	24,905	
Number of library items circulated	2,625,227	Miles of water mains	301	
Cemetery	2	Number of fire hydrants	3,249	
Fire Protection:		Daily average consumption	21 MG	
Number of stations	10	Maximum daily capacity of plant:		
Number of fire personnel and officers:		Potable Water	87 MGD	
Non-sworn	11.5	Recycled Water	15 MGD	
Sworn	168	Miles of recycled watermain	19	
Number of calls answered	6,065	Miles of Streets		
Number of inspections conducted	10,026		249	
Police Protection:		Number of Street Lights		
Number of stations	2		8,170	
Number of police personnel and officers:		Number of Traffic Signals		
Sworn	147		182	
Non-Sworn	76			
Number of reserve officers	26			
Number of volunteers	16			
Number of calls for service	55,814			

Source: City of Santa Clara